

THEN AS NOW >>>



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2 TO OUR OWNERS

In the huge, fast-growing industry of financial services, we believe there's only one sustainable competitive advantage.

10 WE CONNECT

Our ability to grow revenue and market share will be determined by how well we connect.

22 WE CONNECT WITH COMMUNITIES

From Crisis Nursery parents and their children to American Indians who want to achieve the dream of home ownership, we're connecting with communities across the USA.

26 THE BUSINESSES OF WELLS FARGO

We're a big company but all the pieces come together to focus on satisfying all of our customers' financial needs.

30 WELLS FARGO: NORTH AMERICA

With 5,310 stores, 6,300 ATMs, *Phone Bank*SM centers and the Internet, we have one of the most extensive distribution networks in the financial services industry.

31 BOARD OF DIRECTORS, CORPORATE OFFICERS, SENIOR OFFICERS

33 FINANCIAL REVIEW

52 FINANCIAL STATEMENTS

97 INDEPENDENT AUDITORS' REPORT

WELLS FARGO & COMPANY (NYSE:WFC)

was founded on the American frontier 148 years ago to satisfy a fundamental human need — to connect one market to another and one customer to another by transporting goods, services and funds fast and securely across great distances.

Today, Wells Fargo is a diversified financial services company — providing banking, insurance, investments, mortgage and consumer finance from 5,310 stores, the industry's leading Internet site (wellsfargo.com) and other distribution channels across North America. We are the product of 1,500+ mergers in 148 years including the 1998 merger of equals involving Norwest Corporation and Wells Fargo & Company. This report presents combined results as if the merger had been in effect for all periods.

Assets: \$218 billion

Rank in size among U.S. peers: 7th

Market value of stock: \$65.7 billion

Rank by market cap among U.S. peers: 3rd

Rank by market cap among global peers: 7th

Team members: 103,052 (headcount)

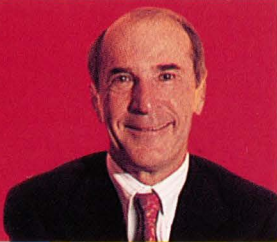
Headquarters: San Francisco

> > > > > > WE

FORWARD LOOKING STATEMENTS In this report we make forward looking statements about the company's financial condition, results of operations, plans, objectives and future performance and business. When we use the words "believe," "expect," "anticipate," "estimate," "may," "will" or similar expressions, we are making forward looking statements. These forward looking statements involve inherent risks and uncertainties. A number of factors — many of which are beyond the control of the company — could cause actual results to differ from those in our forward looking statements. These factors include: • changes in political, business and economic conditions, including changes in interest rates • competition, including competition from insurance companies and securities firms • fiscal and monetary policies • customers choosing not to use banks for transactions • legislation, including the Gramm-Leach-Bliley Act of 1999 • the integration of the former Norwest Corporation and the former Wells Fargo • future mergers and acquisitions; and • the integration of merged and acquired companies. We discuss in more detail on pages 35-37 these factors and other factors that could cause actual results to differ from those in our forward-looking statements. There are other factors not described in this report that could cause actual results to differ.

WE CONNECT:

PAUL HAZEN, CHAIRMAN



RICHARD KOVACEVICH, PRESIDENT, CEO



LES BILLER, VICE CHAIR, COO



TO OUR OWNERS WELLS FARGO WAS FOUNDED ON THE AMERICAN FRONTIER 148 YEARS AGO TO SATISFY A FUNDAMENTAL HUMAN NEED — TO CONNECT ONE CUSTOMER TO ANOTHER AND ONE MARKET TO ANOTHER BY TRANSPORTING GOODS, SERVICES AND FUNDS FAST AND SECURELY ACROSS GREAT DISTANCES. WE'RE STILL DOING IT TODAY. OUR VISION — SATISFYING ALL OUR CUSTOMERS' FINANCIAL NEEDS — IS BUILT ON THAT SAME PROCESS — CONNECTING. THAT'S THE "NEXT STAGE" OF THE NEW WELLS FARGO.

For the past three decades, technology has caused profound change in the way our customers shop for financial services and how you, our owners, view your investment in Wells Fargo. Technology has blurred distinctions among banking, investment and insurance products. It has brought the "bank" into the home. It's also created a virtual bank. Customers can use our bank anywhere on the globe — when, where and how they want to. It's helped create an

entirely new industry: financial services. This new industry is huge. It has about \$2 trillion in revenue. That's more than four times larger than banking. It's growing very rapidly. Banking, meanwhile, has disappeared as a stand-alone industry. It's become just a segment of financial services, with slow if not stagnant growth. The market share for banking is less than 25 percent of Americans' financial assets. Because it's so highly fragmented, the financial services industry is ripe for consolida-



CONNECT.



p. 12

TEAM MEMBERS



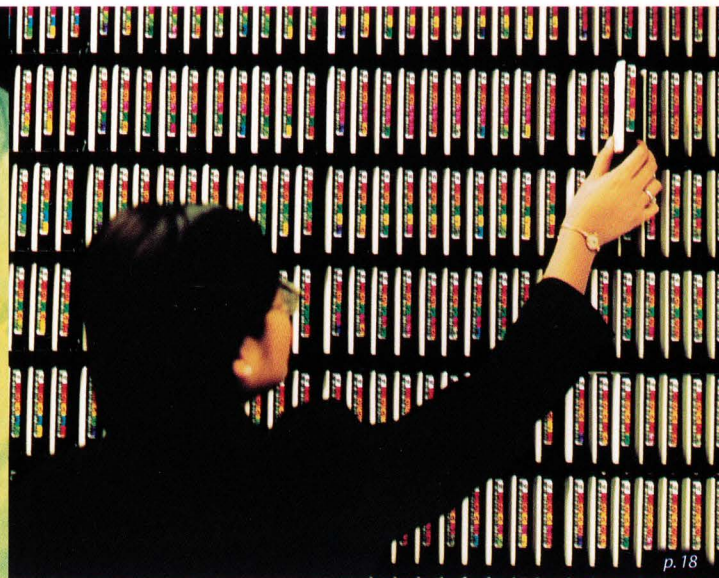
p. 14

CUSTOMERS



p. 16

DELIVERY CHANNELS



p. 18

SYSTEMS



p. 20

STOCKHOLDERS



p. 22

COMMUNITIES



AMERICANS TODAY HAVE MORE FINANCIAL CHOICES THAN EVER. TO SOME, THE MULTITUDE OF CHOICES MAY BE OVERWHELMING. NEVER BEFORE HAVE SO MANY COMPANIES COMPETED THROUGH SO MANY CHANNELS. THE BASIC FINANCIAL NEEDS OF OUR CUSTOMERS, HOWEVER, DO NOT CHANGE.

tion. The largest provider of financial services has a national market share of only about three percent.

Congress recognized this new reality last year. It repealed a Depression-era law that had built a wall between commercial banking and investment banking. Congress enacted a new law that allows banking, insurance and investment firms to enter fully into each others' businesses. This law also gives customers more opportunities than ever for better prices, convenience and value.

The evolution of this industry has coincided with another phenomenon: the explosive growth of the Internet. The result is an unprecedented number of new players in this huge, intensely competitive and very fast growing industry. There are fewer banks in the United States but there also are more and more companies offering financial services — from retailers to manufacturers to Internet portals.

MORE CHOICE THAN EVER As a result, Americans today have more financial choices than ever. To some, the multitude of choices may be overwhelming. It seems everyone these days wants to be in the money business. Never before have so many companies competed through so many different channels to lend money, accept deposits, sell insurance, mortgages and stocks, process payments, finance equipment or invest in businesses. Brokerage companies want to be your bank. Banks want to be your broker. Banks want to sell you insurance. Insurance companies want to be your bank and

broker and real estate developer. Department stores always wanted your credit card business. Now some want to be your bank. Software makers and Internet portals want to present and pay your bills electronically. Internet discount brokers want to give financial advice and be your bank. "Dot.coms" want to lend you money without ever serving you in person. Some web-sites try to make a profit simply by letting you choose from a list of advertised mortgage rates from other providers.

The basic financial needs of our customers, however, do not change that much. They want to borrow, invest, transact and be insured. They want convenience, security, trust and dependability. They want the best return on their investment. They want sound financial advice. They want to do these things when, where and how it's most convenient for them. They want access to many channels including traditional banking stores, ATMs, the Internet, the telephone, mail, supermarkets, business offices and "bank at work" centers. If the value they're offered is clear and compelling, if the service and advice they receive is outstanding, they will give the best providers more of their business.

THE NEXT STAGE At Wells Fargo, we've been preparing for this next stage for a long time. We've built one of America's most diversified financial services companies. We have market leadership in major categories including community banking, mortgage lending, Internet banking, commercial real estate,

education finance, small business lending, commercial banking for middle market and larger corporations, agricultural lending, and supermarket banking. Our vision is not the vision of just a bank, a brokerage firm, a mortgage company or an insurance agency — our vision is to bring all these products to our customers through all our channels, satisfy our customers' financial needs, offer sound financial advice and help them succeed financially.

GREAT PEOPLE = REVENUE GROWTH

We believe there's only one sustainable competitive advantage for a company that wants to be a consistent winner — the best — in the financial services industry. It is not physical stores, ATMs, *Phone Bank* centers, or even the Internet. Our competitors have those channels. Nor is it products or technology. Both are commodities, easily imitated. Nor is it cost cutting. Every company must become more efficient but a financial services company cannot cost cut its way to consistent, long-term growth in profitability. We believe the battle for profit, market share and stock appreciation will be won on the field of *revenue growth*. Revenue growth is simply another term for sales and service. Products, technology and efficiency are all important but in the end, great sales and service are provided by people.

We believe the winners in any industry — or in any delivery channel — will be those who have the best and most diverse *people* — *people* in their stores, *people* building their technology, *people* operating their

OUR PERFORMANCE

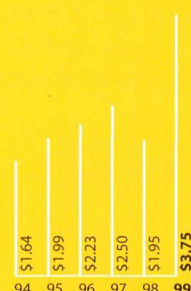
(\$ in millions, except per share amounts)

	1999	1998	% Change 1999/1998
AS REPORTED			
FOR THE YEAR			
Net income	\$ 3,747	\$ 1,950	92%
Net income applicable to common stock	3,712	1,915	94
Earnings per common share	\$ 2.26	\$ 1.18	92
Diluted earnings per common share	2.23	1.17	91
Dividends declared per common share	.785	.70	12
Average common shares outstanding	1,645.6	1,621.5	1
Diluted average common shares outstanding	1,665.2	1,641.8	1
Profitability ratios			
Net income to average total assets (ROA)	1.85%	1.04%	78
Net income applicable to common stock to average common stockholders' equity (ROE)	17.66	9.86	79
Total revenue	\$ 16,775	\$ 15,417	9
Efficiency ratio	58.3%	68.5%	(15)
Average loans	\$111,374	\$106,205	5
Average assets	202,623	188,355	8
Average core deposits	127,231	123,801	3
Net interest margin	5.66%	5.79%	(2)
AT YEAR END			
Securities available for sale	\$ 38,518	\$ 31,997	20
Loans	119,464	107,994	11
Allowance for loan losses	3,170	3,134	1
Goodwill	7,702	7,664	—
Assets	218,102	202,475	8
Core deposits	126,198	132,289	(5)
Common stockholders' equity	21,860	20,296	8
Stockholders' equity	22,131	20,759	7
Tier 1 capital	13,484	12,412	9
Total capital (Tiers 1 and 2)	17,555	16,733	5
Capital ratios			
Common stockholders' equity to assets	10.02%	10.02%	—
Stockholders' equity to assets	10.15	10.25	(1)
Risk-based capital			
Tier 1 capital	8.07	8.08	—
Total capital	10.50	10.90	(4)
Leverage	6.77	6.58	3
Book value per common share	\$ 13.44	\$ 12.35	9
Team Members (active, full-time equivalent)	89,355	91,403	(2)
CASH OPERATING BASIS**			
FOR THE YEAR			
Net income	\$ 4,304	\$ 3,456	25%
Net income applicable to common stock	4,269	3,421	25
Earnings per common share	\$ 2.59	\$ 2.11	23
Diluted earnings per common share	2.56	2.08	23
Profitability ratios			
Net income to average total assets (ROA)	2.22%	1.92%	16
Net income applicable to common stock to average common stockholders' equity (ROE)	34.08	31.76	7
Efficiency ratio	54.6	57.0	(4)



Revenue billions
Compound Annual
Growth Rate (5 years) **15%**

The single best measure of success in our industry: the ability to earn more of our customers' business.



Net Income billions
Compound Annual
Growth Rate (5 years) **18%**

Since 1994, our net income has grown at a compound annual rate of 18%, among the best in our industry.



Dividends
Compound Annual
Growth Rate (5 years) **15%**

We've increased our dividend every nine months for each of the past nine years.

*Cash operating earnings exclude goodwill and nonqualifying core deposit intangible amortization and balances.

**Excludes 1998 merger-related and other charges of approximately \$1,152 million (\$748 million after tax) and \$320 million (\$208 million after tax) of loan losses, mostly in Island Finance.

computers, *people* staffing their phone banks and *people* creating their web-sites. This allows customers to do routine transactions electronically but gives them the choice to access people when they need professional advice. We know we're doing a good job when customers give us more of their business.

WE CONNECT! Wells Fargo was founded on the American frontier 148 years ago to satisfy a fundamental human need — to connect one person to another and one market to another by transporting goods, services and funds fast and securely across great distances. We're still doing it today. Our vision — satisfying all our customers' financial needs — is built on that same process — the process of connecting. That's the

creating a spirit of teamwork and cross-selling across all our businesses and geographies. Sharing best practices. Partnering to satisfy all our customers' financial needs. Celebrating each other's successes.

- We're connecting with our **customers**. Showing we care. Asking the right questions. Listening and responding in our stores, on the phone or via the Web, with the right products, advice and services to meet their needs.
- We're connecting our **computer systems** — we're combining the best from the former Norwest and the former Wells Fargo — to enable us to provide outstanding sales and service 24 hours a day, seven days a week, 365 days a year.
- We're connecting **delivery channels**. We aggregate. We integrate. We

own, because they are. Almost all our 104,000 team members own a piece of the Company through *PartnerShares*® stock options and their 401(k) accounts.

- We're connecting with our **communities**. We're contributing financial capital. Equally important, we're providing human capital — team member volunteers, creative thinking and ingenuity, and community leaders who can connect local resources and talent.

MERGER INTEGRATION — OFF TO A GREAT START

We're now into the second full year of combining the systems of the former Norwest and the former Wells Fargo. Because we're combining the best of both, we believe it's the most complex integration in banking history. This takes

time — but it's time well spent. We start every decision with the customer. Our goal is to preserve outstanding customer service every step of the way. Our customers deserve nothing less. We're off to a great start:

- We successfully combined our systems in New Mexico and Nevada late last year for our 450,000 banking households in those states;
- We merged our *Stagecoach Funds*® and *Norwest Advantage Funds*®

into the new \$57 billion *Wells Fargo Funds*SM, giving our customers more investment choices than ever;

- We combined our card services units, serving more than 11 million cardholders;
- In 1999, we agreed to acquire companies with more than \$9.3 billion in assets in states including

OUR THANKS

Seven Directors - distinguished leaders in their fields - are retiring from our Board. We thank them for their vision, wisdom and leadership which laid the foundation for the new Wells Fargo:

Edward M. Carson, chairman, CEO of First Interstate Bancorp before its 1996 merger with Wells Fargo. He also had been president of the Los Angeles-based bank holding company and on its board since 1985.

William S. Davila, president emeritus, The Vons Companies, a Los Angeles-based supermarket chain. He joined the Wells Fargo board in 1990.

William A. Hodder, former chairman and CEO of Donaldson Company, Minneapolis-based maker of filtration and emission control products. He joined the Norwest Corporation board of directors in 1971.

Rodney L. Jacobs was vice chairman, CFO of Wells Fargo since November 1998. During his 20 years with the former Wells Fargo, he was CFO, vice chairman and president.

Ian M. Rolland was the chairman, CEO of Lincoln National Corporation, an insurance holding company based in Fort Wayne, Indiana. He joined the Norwest Corporation board in 1993.

Daniel M. Tellup was chairman, CEO of Lockheed Martin Corporation, a Bethesda, Maryland-based aerospace and defense manufacturer. He served on the First Interstate board since 1991 and joined the Wells Fargo board in 1996.

John A. Young, former president, CEO of Hewlett-Packard Company, a computer and peripheral manufacturer based in Palo Alto, California. He joined the Wells Fargo board of directors in 1977.

"Next Stage" of the new Wells Fargo. Every minute, every day, everywhere, everyone around your new company is connecting.

Beginning on page 10, we show you how we're connecting in six important areas:

- Our **team members** are connecting with each other. We believe in

want customers to buy our products and services through any channel or combination of channels they choose — when, where and how they choose. Stores, ATMs, *Phone Bank* centers, the Internet and direct mail.

- We're connecting with our **stockholders**. Our team members act like



WHEN WE CONNECT, WE ACHIEVE OUR VISION. WE SATISFY ALL OF OUR CUSTOMERS' FINANCIAL NEEDS. WE HELP THEM SUCCEED FINANCIALLY. AND IN DOING SO, WE BECOME KNOWN AS ONE OF AMERICA'S GREAT COMPANIES.

California, Minnesota, Texas and our two newest banking states: Michigan and Alaska; and

- We agreed to acquire Ragen MacKenzie Group, the Pacific Northwest's largest independent full service brokerage firm, and Eastdil Realty, the nation's pre-eminent full service, real estate investment banking company.

STILL A LONG WAY TO GO We have 48 systems conversions scheduled for 2000, including 19 banking states, acquisitions and new products. Later in 2000, both Norwest Mortgage and Norwest Financial (consumer finance) will adopt the Wells Fargo name so they can take full advantage of cross-sell opportunities with our banking businesses. We approach these conversions with great confidence because of our talented people.

MEASURING OUR PROGRESS

We'll know we're achieving our vision when three things happen.

First, our revenue increases by 10 percent or more each year. *Second*, we sell at least one more product to every customer every year. *Third*, we increase market share in each of our geographies and businesses. When it comes to measuring market share, we no longer use deposits as our only yardstick. They're only \$1 of every \$4 in an average household's assets. Our deposit market share might be 20 or 30 percent in a given market, but our share of total financial assets probably is only around *three* percent. There's lots of room for growth!

We also measure our progress

against 10 strategic initiatives. By succeeding in these initiatives, we will achieve double-digit earnings growth and be one of America's great companies. Here's an update on how we're doing:

1. INVESTMENTS, BROKERAGE AND INSURANCE

About 11 percent of our earnings come from investments, brokerage and insurance. That's about double where we were five years ago. We must, however, increase that to at least 25 percent. Less than five percent of our nine million banking households have relationships with our brokerage business. Less than two percent buy insurance through us. In 1999, we attracted \$433 million in new assets through the *WellsSelect*® program, enabling clients to access outside money managers.

2. GOING FOR GR-EIGHT—

PRODUCT PACKAGES Our average banking household has 3.4 products with us. We want to get to eight. To do that, we must offer customers a package of products all at once, not one at a time. In Lewiston, Montana, our first test site, our bankers sold an average of 2.39 products to new customers last year, up 62 percent from a year earlier.

3. MORE VALUE FOR BUSINESS CUSTOMERS

We need to take advantage of cross-sell opportunities with our business customers and increase the number of products they have with us. We measure the total value of our commercial relationships. We want customers to have a complete relationship with us, not only credit and treasury management

but investments, payroll, credit and debit card processing, asset-based lending, equipment finance and personal banking. We don't want to give customers any reason to go to our competitors for a product or a service they could get from us. We're making progress. Only one other bank in the country has more commercial customers who consider it their primary financial services provider.

4. BANKING WITH A MORTGAGE AND HOME EQUITY LOAN

We want all our mortgage customers in our banking markets to bank with us. We also want all our banking customers—who need a mortgage or a home equity loan—to come to us to meet those needs. Today, 21 percent of our mortgage customers also use our banking services. Only 14 percent of our banking customers who have a mortgage, have it with us. We've provided home equity loans to only seven percent of our customers who own a home. The number of new mortgage customers who bought our banking products in 1999 rose 50 percent from the previous year. In California, the nation's largest housing market, our home equity loans rose almost 50 percent in 1999.

5. WELLS FARGO CARDS IN EVERY WELLS FARGO WALLET

Every one of our creditworthy customers should have a Wells Fargo credit card and debit card. Right now, only one in five of our banking customers have a Wells Fargo credit card. Two of three have a Wells Fargo debit card, almost double 1998. Many of our banks offer real time, pre-qualified credit card approvals.



EVEN IN THIS AGE OF THE INTERNET, MOST PEOPLE STILL DO NOT BANK WITH A "BANK." THEY "BANK" WITH PEOPLE. THEY GO WHERE THEY GET THE BEST SERVICE AND ADVICE. IF WE CONTINUE TO PROVIDE GREAT SALES, SERVICE AND ADVICE, WE WILL ACHIEVE OUR VISION.

6. WHEN, WHERE AND HOW

We want to integrate all our channels — stores, ATMs, *Phone Bank* centers, Internet and direct mail — so we can offer all our products and services through all of them — anytime, anywhere our customers want to be served. We let our customers tell us how they want to be served. For example, we re-opened six traditional banking stores in Oregon that were closed after the acquisition of First Interstate. We've also positioned 32 more small business bankers in communities throughout Oregon to provide more local service. In Washington, we've hired more relationship managers to partner with commercial lending officers and our banking stores in key markets to build and deepen customer relationships.

7. INFORMATION-BASED

MARKETING We must take advantage of what we know about our customers' needs — and respect their privacy — so we can offer them the choice, convenience and price benefits of giving us all their business. Last year, for example, we sold 100,000 more products as a direct result of 2.6 million messages to our customers through our ATMs and *Phone Bank* centers.

8. BE OUR CUSTOMERS'

PAYMENT PROCESSOR We need to make sure Wells Fargo adds real value so we can continue to be the trusted intermediary — electronic or paper — whenever and wherever our

customers buy services. For example, we're part of a new joint venture with two of our peer companies. Using Sun Microsystems technology, this service enables customers to read their bills online with one click and pay with another click. We're now testing this new system with our mortgage customers. It will save us and our customers big money. One paper bill sent through the mail costs between \$1.50 and \$2.70 to process, print and mail. An electronic bill costs 30 to 50 cents.

9. OUTSTANDING AND

EXCELLENT CUSTOMERS We must attract more — and keep all current — outstanding and excellent banking households and earn more business from households that can become outstanding customers. We increased our outstanding and excellent customers by 16 percent in 1999 over 1998.

10. PEOPLE AS A COMPETITIVE

ADVANTAGE Most importantly, we must do even better in training, rewarding and recognizing all our team members. They are the reason customers will give us more of their business which, in turn, will increase our stock price. We also must become an even more diverse organization, reflecting the diversity of our markets.

WELLSFARGO.COM Our Internet site continues to be recognized as the industry leader for growth and innovation. Since year-end 1998, our

Internet banking customers doubled to almost 1.5 million. Almost one of every five of our checking account households now use wells Fargo.com. That's the largest percentage we know of in the banking segment of the financial services industry.

USA's Largest Internet Banks (market share)

Wells Fargo	14.40%	
Bank of America	9.95%	
Citigroup	4.82%	
Bank One	4.01%	
First Union	2.96%	

Source: Gomez Advisors

The number of Norwest banking customers who bank with us online rose 570 percent — from 34,000 at year-end 1998 to 228,000 at year-end 1999. Gomez Advisors, the highly-regarded Internet market research firm, rated Wells Fargo one of the top five Internet banks, the only one of those five with both "bricks" (physical stores) and "clicks."

We've invested \$40 million in strategic partnerships with several Internet companies. We formed the Wells Fargo Internet Services Group to coordinate all our online and Internet activity. We originated more than \$74 million in home equity loans online since the nationwide launch of that product via the Internet in September 1999. We offer a new service that stores customers' billing address, shipping information and credit card number in one secure location so they can access it at the "check out" section of an online store.



We want to be the nation's #1 trusted gateway and Internet financial portal of choice for all our customers' financial services with more customers and more services than any competitor. We will put more transactions online so our customers can do all their financial business through wells Fargo.com. That's good for our customers and good for our bottom line. Compared to our other customers, Internet customers bring us more revenue, higher balances, and have more products and services with us. When they pay their bills online, they stay customers of Wells Fargo even longer.

2000 MOMENTUM We have great momentum for 2000! Thanks to our diverse businesses and talented team members, Wells Fargo achieved record results in 1999. We now are generating after-tax profit of almost \$1 billion a quarter. Earnings for 1999 were \$3.75 billion, or \$2.23 per share. That compares with \$2.91 billion or \$1.75 per share in 1998 (excluding merger-related and other charges). Here's how your company performed in 1999:

	1999	% increase from 1998*
Net Income	\$3.7 billion	29
EPS	\$2.23	27
ROA	1.85%	20
ROE	17.66%	22

These measures of financial performance, we believe, are much more relevant on a cash basis, which measures Wells Fargo's ability to support growth and pay dividends:

Cash Operating Basis [†]	1999	% increase from 1998*
Net Income	\$4.3 billion	25
EPS	\$2.56	23
ROA	2.22%	16
ROE	34.08%	7

* ** see page 5 footnotes.

We continue to emphasize a conservative financial position and a disciplined credit process that manages risk exposure by industry, geography and customer. Nonperforming loans were a very low 0.6 percent of loans and leases, one of the best among our peers.

OUR MOST IMPORTANT COMPETITIVE ADVANTAGE

We've begun the second full year of integrating the former Norwest and the former Wells Fargo. Several things have become clear. *First*, we're delivering on our promise that this would be a true merger of equals. We're one team. *Second*, while we still have a long road ahead of us this year, the merger integration to date has been remarkably smooth. We've gained new customers and grown revenue. Revenue was up 16 percent in the fourth quarter compared to the same period last year, and up nine percent year to year. We're propagating systems and procedures across all our banking states to track our bankers' daily sales and profits. We continue to focus on service quality. More sales do not always lead to better service but better service almost always leads to more sales. *Third*, we met our ambitious financial and profitability goals. We delivered on what we said we would do. We don't know of a company that has increased profit over 25 percent "apples to apples" in the first year of its merger. In fact, we've had impressive growth over the past five years, with total compound annual growth in revenue of 15 percent, net income 18 percent and dividends 15 percent. *Fourth*, the competitive advantages that made our merger of equals so compelling will become even more powerful as we distinguish ourselves from our competitors: geography, products and businesses, distribution, sales and service culture, efficiency, our

powerful brand and, most important, our talented team of people.

We are at heart a *service* company. Financial ratios are important but they do not capture the most critical part of a great service company: the heart and caring of its people. At Wells Fargo, our customers are important—but our most important constituency is our team members. They're the single most important influence on our customers. Even in this age of the Internet, most people still do not bank with a "bank." They "bank" with people. They go where they get the best service and best advice. If we continue to provide great sales, service and advice, we will achieve our vision: satisfy all our customers' financial needs, help them succeed financially, and be known as one of America's great companies.

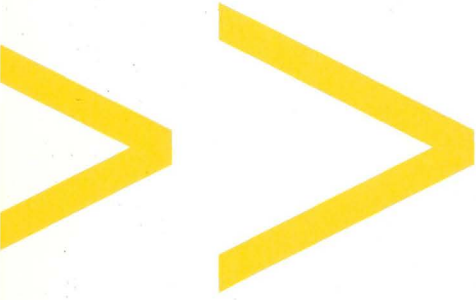
We thank you, our owners, for your support. We especially thank our great team of talented people for being the very best at what they do. We're connecting!

Paul Hazen
Chairman

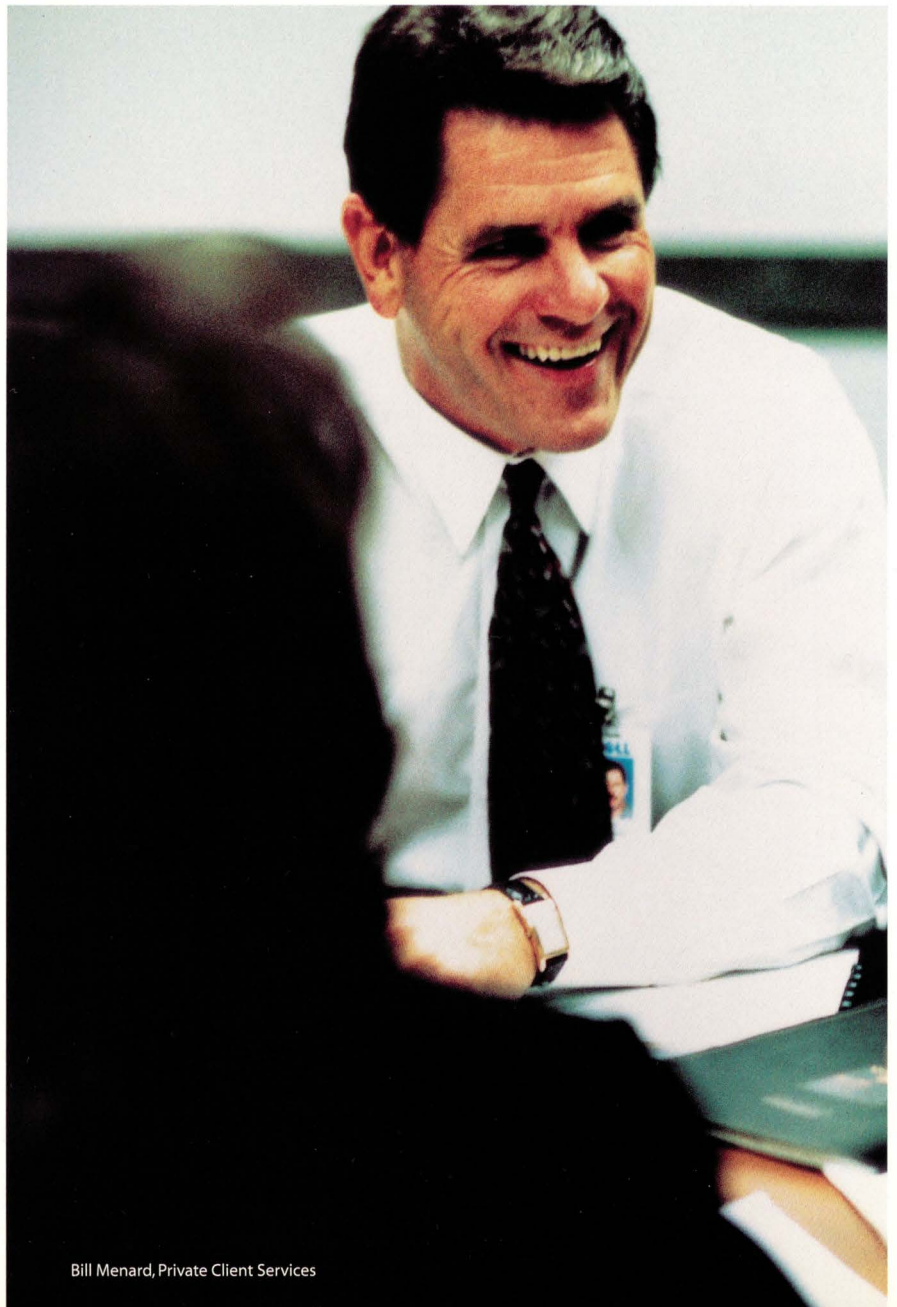
Richard M. Kovacevich
President and Chief Executive Officer



WE



WE BELIEVE IN CREATING A SPIRIT OF TEAM-
WORK AND CROSS-SELLING ACROSS ALL OUR
BUSINESSES AND GEOGRAPHIES. SHARING
BEST PRACTICES. PARTNERING TO SATISFY
ALL OUR CUSTOMERS' FINANCIAL NEEDS.
CELEBRATING EACH OTHER'S SUCCESSES.
WE'RE CONNECTING WITH CUSTOMERS.
SHOWING THEM WE CARE. ASKING THEM
THE RIGHT QUESTIONS. LISTENING AND
RESPONDING IN OUR STORES, ON THE PHONE
OR VIA THE WEB, WITH THE RIGHT PRODUCTS,
ADVICE AND SERVICES TO MEET THEIR NEEDS.



Bill Menard, Private Client Services



CONNECT >

WE CONNECT WITH

TEAM MEMBERS



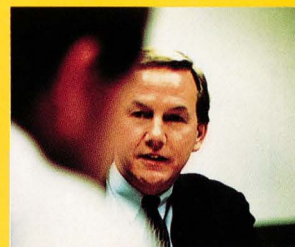
Kyle Gauthreaux, Private Client Services



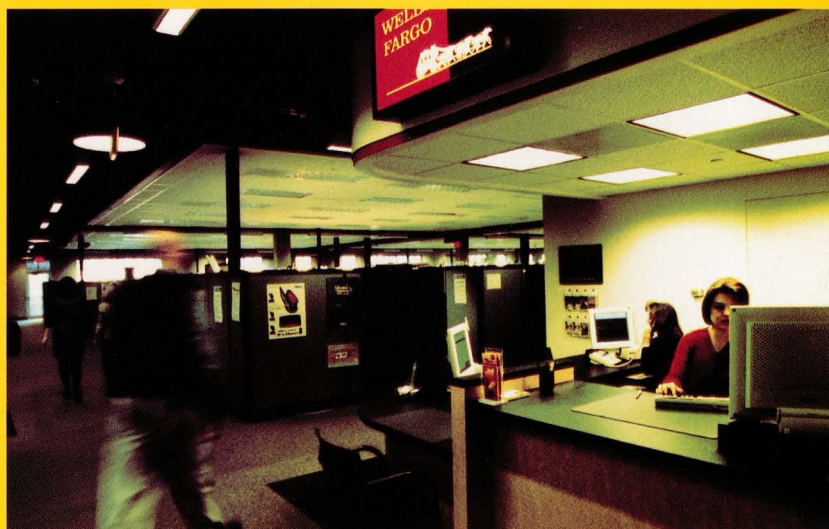
Shelley Parcus, Consumer Banking



Scott Bjelde, Corporate Banker



Dell's Kip Thompson



Wells Fargo Banking Store — Dell Computer World Headquarters, Round Rock, Texas

THEN: *"The Officers and Employees of Wells Fargo & Company believe that success in business is secured by superior service and promptitude, together with fair dealing and courtesy to all, and through these means they aim to continue to deserve it."*

—Wells Fargo & Company *Express and Banking Official Directory*, January 1, 1892.

NOW: You're the world's leading direct seller of computers. You take pride in surprising and delighting your customers with great service each time, every time. So when you go looking for a financial services company to do the same for your 20,000 world headquarters employees, you get pretty picky. Dell Computer

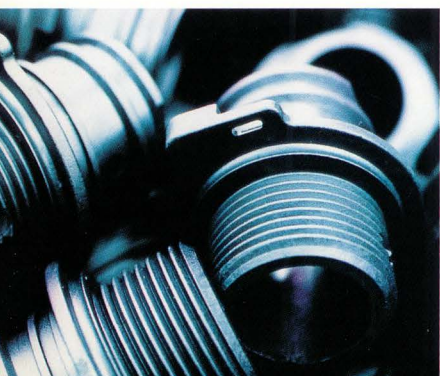
Corporation is based in Round Rock, Texas, near Austin, one of the nation's hottest housing markets and fastest growing metro areas. It negotiated with several companies in 1999 before selecting Wells Fargo. "Anyone can put in a few ATMs but we were looking for more than that," said Kip Thompson, Dell's vice president of Worldwide Facilities Management. "We wanted to offer our people a level of service so high that we could use it as another tool to recruit and retain the best people."

As more than a bank, a Wells Fargo team connected to offer Dell employees everything from banking to brokerage and more — via banking stores, ATMs, the phone and the Internet. Banking Store Manager Shelley Parcus and her

team attracted 3,000 Dell employee-customers in 1999. Norwest Mortgage's Stuart Napier has originated mortgages for more than 200 Dell employees the last few years; they are about 75 percent of his customer base. Bill Menard and Kyle Gauthreaux of Wells Fargo Private Client Services provide full service brokerage, investment management and trust, 401(k) rollovers and estate planning. Wholesale Banker Scott Bjelde provides operating services and commercial lending.

"We expect these benefits to surprise and delight our employees," said Dell's Thompson. "It's Tuesday night, one of our people is headed for China the following day and needs foreign exchange. Can Wells Fargo do it? They did."





WE CONNECT WITH CUSTOMERS

THEN: Wells Fargo connected with customers from the very beginning. Its “Instructions to Agents” manual in the 1880s said in part, “The most polite and courteous treatment of all customers is insisted upon. Proper respect must be shown to all...”

NOW: Five years ago, Stephanie Harkness (opposite page, right), CEO of Pacific Plastics & Engineering — maker of medical devices for surgery — went to her local bank in Santa Cruz, California and asked for a loan to grow her business. The bank turned her down — partly because, Harkness later suspected, they didn’t think a woman could run a manufacturing company successfully.

Weeks later, she met a Wells Fargo banker at a meeting of the National Association of Women Business Owners, of which Wells Fargo is a national sponsor. The conversation, of course, turned to the future of Pacific Plastics. Within 24 hours, Wells Fargo had connected for Pacific Plastics — approving not only a loan but providing a \$75,000 line of credit and buying the company’s \$250,000

in equipment leasing notes. With Sandi Eason (opposite, left), a veteran Wells Fargo banker managing the relationship, Pacific Plastics now has a \$500,000 line of credit with Wells Fargo, \$350,000 available to finance equipment and Wells Fargo also manages Pacific Plastics’ 401(k), private banking and payroll administration.

Today, Pacific Plastics has 42 employees, annual sales revenue in the high seven figures, and continues to enjoy significant revenue growth. “There’s no doubt that my company would be nowhere near as successful as it is today without the full-service support of Wells Fargo,” said Harkness. “Sandi knows our company, our business, our products, our equipment and our customers. We strategize together often throughout the year. She is a key member of our advisory team and she tells us about new products and services. For example, I wouldn’t even have known about employee stock ownership programs a few years back if Sandi hadn’t educated me about them. That’s what I want in a banking relationship.”

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WE CONNECT OUR **DELIVERY CHANNELS**

THEN: Wells Fargo agents on the American frontier connected with each other every step of the way, shipping gold around the world for customers via stagecoach, railroad and ocean steamer.

NOW: Our customers touch us electronically 650 million times a year. On average, that's 665 ATM transactions, 476 Phone Bank center calls and 95 Internet banking sessions *every minute*. Those are not just 650 million opportunities to serve. They are 650 million opportunities to sell— to save customers time and money and offer them more value through other products or services targeted to their financial needs.

The ability to target “interactive messages”—via ATMs, Phone Bank centers and the Internet—is another benefit of the Norwest and Wells Fargo merger. Both companies were doing it before the merger—Norwest via ATMs, Wells Fargo via targeted ad banners on its Internet banking site. Team members Sheridan Young (left), Internet banking, and Stodden Danelius (right), marketing, help our customers access Wells Fargo when, where and how our customers want to do it. In 1999, almost two percent of our website visitors — well above our average response rate — clicked through our ad banners for more information on our home equity loan offers.

“Connecting delivery channels is more and more important,” says Danelius, “because more of our customers are choosing to access their funds and account information electronically. Interactive messaging becomes the virtual equivalent of person-to-person sales and service.”

WE CONNECT OUR SYSTEMS



THEN: *Daily Alta California newspaper, September 28, 1866 — “The scrupulous honor with which all engagements are met have endeared Wells Fargo & Co. to the public. Thus, many millions of gold are paid into it in small sums for bills remitted to families and others in the East...”*

NOW: 8 a.m. Monday, September 27, 1999—Somewhere in New Mexico, a customer of a Wells Fargo Bank enters a Norwest Bank, fills out a deposit slip and walks to a teller window where the teller handles the transaction. Business as usual, right? For the customer — like team member Young Yang (opposite page) — yes. Behind the scenes, however, an enormous amount of time, resources and sacrifice from several thousand of our team members went into making two different banking

operations work on one system. We made the process invisible for our 173,000 banking households in New Mexico, the first of our banking states to combine systems. We didn’t take the easy route by simply replacing one set of systems and processes with another. We combined the best of both systems from the former Norwest and the former Wells Fargo. Because of that, we believe this is the most complex integration in U.S. banking history.

Thanks to the commitment of team members such as Ren Kalstrom (above, left), and Alicia Paredes (right) of Wells Fargo Services Company, Shirley Brinks (second left), marketing, and Michelle Wolff Stewart of our Consumer Banking Group, our New Mexico conversion and customer communication (and another for our 277,000 banking households in

Nevada) were virtually flawless.

“We started every decision with the customer,” said Stewart. “When we issued new checks to customers who got new account numbers, we didn’t just say, ‘Here’s what you get and that’s that,’ we said, ‘What do you want and we’ll get it for you’ — that’s the magic of mass customization.”

Many team members responded with Herculean efforts of endurance. For example, Paredes worked around the clock to help ensure a flawless conversion. “It was incredibly hard work but enormously gratifying and very fun,” she said. “I kept thinking of all those customers and I wanted this experience to be absolutely perfect for them. It was a great team effort and I’m very proud of what we accomplished together. Even knowing now how much work it took, I’d still do it all over again. No question.”







WE CONNECT WITH STOCKHOLDERS

THEN: *Northwest Bancorporation—predecessor to Norwest—was created in 1929 to connect stockholder interests: diversifying risk across a broad geography making “such territories independent of depressions or conditions affecting one locality or industry.”*

NOW: The next time you walk into a Wells Fargo financial services store, ask the team members who owns the company. Chances are they’ll say, “We do!” The vast majority of our team members own stock in the company—about seven percent of the total market value of the company’s stock—one of the highest such percentages among our peer competitors. Virtually all our team members also have Wells Fargo stock options.

Julie New-Landrum (right), a Wells Fargo Services manager, Minneapolis, and Bill Lee (left), a manager in human resources systems, San Francisco, typify the growing number of team member-owners. New-Landrum has been with the combined company 32 years, Lee 27. Between the two, they’ve slowly but surely accumulated several thousand shares through regular payroll deduction purchases and 401(k) investments, representing a significant portion of their retirement savings. Since 1996, the company has awarded three separate *PartnerShares* stock option grants—for 200, 400 and 200 shares. Julie still has her unexercised 200 shares from the first option grant. They vested just 11 months after they were granted. She expects to purchase those shares as well.

“I believe in this company,” says Lee, “not only as a great place to work but as a great investment. I don’t play around much in the market. I’m fairly risk averse. I believe our company will continue to prove its value. I just wish I owned more of it!”



WE CONNECT WITH

COMMUNI

WELLS FARGO FOUNDATION CONTRIBUTED MORE THAN \$70 MILLION IN 1999 TO THOUSANDS OF NON-PROFITS IN OUR COMMUNITIES ACROSS THE USA. HUMAN CAPITAL, HOWEVER, IS JUST AS IMPORTANT AS FINANCIAL CAPITAL. BY THAT WE MEAN THE VOLUNTEER SPIRIT, THE INGENUITY, THE PASSION FOR COMMUNITY INVOLVEMENT OF OUR TEAM MEMBERS WHO LIVE AND WORK IN THE COMMUNITIES WHERE WE DO BUSINESS. THEY HAVE THE MAJOR VOICE IN DECIDING HOW WE RESPOND TO COMMUNITY NEEDS. EVEN IN THIS ERA OF THE VIRTUAL REALITY OF THE INTERNET, IT'S IMPORTANT TO BE PHYSICALLY PRESENT IN OUR COMMUNITIES, CONNECTING WITH PEOPLE WHO NEED HELP, FACE TO FACE. THE STORIES THAT FOLLOW SHOW WHY.

TIES



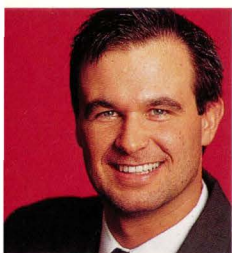
CONNECTING WITH KIDS Wells Fargo's Melinda Grieme (left) connects with kids. Almost 400 of them. The past five years, she and her husband Gary (right) — both Wells Fargo Services Company team members — have provided day and overnight care for nearly 400 children as shelter-parent volunteers for the Children's Home Society Crisis Nursery of St. Paul, Minnesota. The Nursery works to prevent child abuse by providing temporary child care and other services to parents facing tough times.

Melinda understands the sacrifice and rewards of caring for children. She has four of her own and that helps keep the Griemes dedicated to the cause. "I know I need breaks from my kids sometimes and I have a great support network," she says. "I can't imagine being single with no money, no family in the area or not having a safe place to bring my children. Every parent deserves a chance to have a few hours off."

Time off for Melinda is a luxury. She spends more than 140 hours a month caring for two to three Crisis Nursery children ranging in age from two weeks to 12 years old. She also trains new volunteers and chairs the group's annual fund raising event.

"My husband is just as involved as I am and our own children are a huge help. They provide plenty of entertainment for the other kids," she says. "We started volunteering when our children were very young. They think we're just bringing home playmates for them."

In 1999, Wells Fargo honored 110 team members for outstanding contributions to their communities. One of that elite group received the top honors: Melinda Grieme. She was named Wells Fargo's 1999 Volunteer Service Award winner and a \$50,000 check in her honor was presented to the Children's Home Society Crisis Nursery.



CONNECTING WITH UNDER-SERVED

MARKETS The problem looks unsolvable. Todd County, South Dakota—home of the Rosebud Sioux reservation—is the fourth poorest county in the United States. Access to home mortgages was virtually impossible. Land held in trust for a tribe could not be mortgaged. A mortgage on land held in trust for an individual required Federal approval. Then along came a streamlined loan approval process, spearheaded by the Bureau of Indian Affairs with help from Norwest Banks and Norwest Mortgage. The government-insured program allows banks to make mortgage loans, secured by residences on tribal lands, that can be sold on the secondary market.

Thanks to the leadership of Norwest Mortgage's Rob Skjonsberg (left, above) and Norwest Bank's Kernit Grimshaw (right, above), among others, Norwest has helped make the dream of home ownership a reality for 45 families in just two years on all nine Indian reservations in South Dakota. "We succeeded because we started with the customer," said Grimshaw. No one had ever asked Indian people what they wanted in the way of home ownership and how we could make it work for them."

Walter Hernandez (opposite, left), a maintenance worker, his wife Nancy (right), a high school principal, and three of their children — Kyle (15), Tiffany (8), T'neal (7) — benefited from the Norwest initiative. Their home near Mission, South Dakota is not just their residence, it's part of their family history. Nancy's grandfather and father built the home in the mid-1970s, seven bedrooms and an unattached garage. Walter and Nancy want it to stay in their family for generations. "This program allowed us to keep this home in our family," said Nancy. "When your own ancestors build your home, it becomes part of family legend."



WE CONNECT — SOME EXAMPLES **ARIZONA** \$290,000 to support Chicanos Por La Causa, to provide affordable housing, education, small business loan programs and employment opportunities. **CALIFORNIA** \$168,000 to Family Literacy Project at U. of Calif. Santa Barbara, to improve literacy skills among parents and their children in selected school districts. \$125,000 to La Clinica, a health care facility in one of Oakland's most economically disadvantaged neighborhoods. \$150,000 for YMCA aquatic and fitness center for young Hispanics in San Jose's East Valley. \$50,000 to Mission Language and Vocational School in San Francisco to train low-income workers to become cooks, chefs, restaurant managers and owners. **COLORADO** \$201,500 through the annual Neighborhood Assistance Fund to support 200 small, grassroots organizations that address local community needs. **IDAHO** \$135,348 to 46 school districts and community organizations for educational, health, affordable housing, human services and arts programs. **MINNESOTA** \$440,000 to 30 nonprofit organizations across Minnesota through two Norwest Leadership Funds, using the leadership of Norwest managing officers and team members to address important issues and needs in their communities. **MONTANA** Helped endow Musselshell Valley Community Foundation so local organizations can apply for community development grants; the Foundation donated funds to the Musselshell School Library to buy books. **NEBRASKA** Organized fundraising team and volunteer mentors for Sacred Heart School in North Omaha to teach disadvantaged children the importance of education. \$30,000 to Catholic Charities to help fund a women's abuse shelter, a drug abuse treatment shelter and a shelter that serves Spanish-speaking residents. **NEVADA** \$80,000 to establish Wells Fargo First Generation Scholarships to help high school graduates from low-moderate income families attend the U. of Nevada. **NEW MEXICO** \$300,000 to the Hispanic Culture Foundation to help build the National Hispanic Cultural Center in the Baretas neighborhood of Albuquerque. **NORTH DAKOTA** Investor in new permanent rental housing in Minot for adults with mental illness, including on-site space for social services providers. **OREGON** \$356,477 to 30 school districts for math and science education, benefiting more than 200,000 students. \$10,000 each to the Oregon Council of Teachers of Mathematics and the Oregon Science Teachers Association to fund 100+ professional development classes for 2,000+ teachers. **SOUTH DAKOTA** Pledged \$250,000 to endow program at South Dakota U. to prepare students for careers in production agriculture; major sponsor of Wells Fargo CineDome (omnitheater) in Sioux Falls. **TEXAS** \$250,000 to the City of Austin and Leaders in the Art's Community for a Performing Arts Center, helping the city raise part of the \$50 million needed for the Center. **UTAH** Supports the Sharing Place, a grief support program for children, adolescents and their families. \$25,000 to the American Red Cross (Salt Lake Chapter) to help re-build tornado-damaged neighborhoods. **WASHINGTON** \$116,853 to the United Way in King County for children's programs and human and health services. \$110,000 to the Seattle Public Schools to provide business skills and leadership training to every principal in the school district. **WYOMING** \$100,000 to the National Historic Trails Interpretive Center to preserve the heritage of The Oregon Trail, Mormon Pioneer Trail, California Trail and Pony Express Trail. **USA** \$300,000 for education, training and services for American Indian groups and communities through First Nations Development Institute - Oweesta Fund. Norwest Housing Foundation grants of \$600,000 for affordable housing in Minneapolis-St. Paul, Phoenix, San Antonio, San Francisco, Los Angeles.

WE CONNECT: THE BUSINESSES OF WELLS FARGO



"We want to be the community bank of choice in every community we serve throughout our eight states by earning 100 percent of our customers' business with quality sales and service."

John A. Berg, Central Banking



"The customer must drive all of our decisions. We must be customer focused, the employer of choice in all our markets and community leaders."

James R. Campbell, Minnesota



"We want to be our customers' first choice for financial solutions, number one in each of our communities, and a great place to work."

Terri A. Dial, California

COMMUNITY BANKING

- '99 Net income: \$2,864 million
- Stores: 2,851 in 21 states
- ATMs: 6,307
- Customers: 10.8 million
- Average products per banking household: 3.4
- Average market share of financial services assets (est.): 3 percent
- USA's #1 supermarket banker (1,093+ stores)
- USA's #1 agricultural lender (banks)
- USA's #1 student loan lender
- USA's #1 NAFTA bank
- USA's #3 largest ATM network
- Eight of ten fastest growing U.S. states



One of the USA's largest banking franchises, from Van Wert, Ohio to San Diego, Calif., our 21-state banking franchise covers more than half the continental USA and four time zones.

CENTRAL BANKING GROUP

- Illinois, Indiana, Iowa, Nebraska, North Dakota, Ohio, South Dakota, Wisconsin
- Assets: \$15.6 billion
- Team members: 5,225
- Stores: 258

MINNESOTA BANKING GROUP

- Twin Cities, Greater Minnesota, Correspondent Banking, Lowry Hill, Peregrine
- Assets: \$13.7 billion
- Team members: 3,871
- Stores: 164
- Headquarters for 22 national Wells Fargo businesses
- USA's #3 largest correspondent banker (2,600 relationships in 50 states)

WESTERN BANKING GROUP

- Colorado, Idaho, Montana, Nevada, Oregon, Utah, Washington, Wyoming
- Assets: \$23.5 billion
- Team members: 7,474
- Stores: 585



"We're relationship focused – understanding our customers' needs, responding fast and reliably. We build and strengthen customer relationships through our outstanding team members and products."

David A. Hoyt, Wholesale Banking

"We focus on building companies of scale and substance in partnership with talented management teams in a variety of industries including media and communications."

John E. Lindahl, Norwest Equity Partners

"We want to build an integrated organization, driven by our clients' needs, exceeding the capabilities of all our competitors – creating a rewarding, productive environment for clients, team members and stockholders."

Dennis J. Mooradian, Private Client Services

SOUTHWESTERN BANKING GROUP

- **Arizona, New Mexico, Texas**
- **Assets:** \$29 billion
- **Team members:** 10,200
- **Stores:** 835

CALIFORNIA, BUSINESS BANKING, PHONE BANKING, DISTRIBUTION STRATEGIES, DIVERSIFIED PRODUCTS GROUP, INSURANCE, EDUCATION FINANCE

- **California**
- **Assets:** \$49.4 billion
- **Team members:** 7,743
- **Stores:** 1,003
- **USA's #1 insurance agency owned by a bank holding company**
- **USA's #1 student loan lender among all banks**
- **USA's #1 small business lender**
- **USA's #3 largest auto lessor**

INTERNET SERVICES GROUP

- **USA's #1 Internet bank**
- **Customers:** 1.5 million, double year-end '98
- **Percent of our community banking households that bank online at wells Fargo.com:** 20 percent
- **Internet Investment Services revenue:** Up 250+ percent from '98
- **Internet Business Banking Services customers:** 3,100+ processing \$1+ billion in credit card transactions over the Internet
- **Internet Wholesale Services customers (online reporting):** 12,000

HOME EQUITY

- **Portfolio:** \$15.4 billion, up 30 percent from '98
- **Customers:** 553,000, up 20.5 percent from '98
- **'99 Originations:** \$9.5 billion, up 47 percent from '98
- **USA's #2 largest home equity lender in '99 (banks)**
- **wells Fargo.com launched instant decisions for home equity applications nationwide**
- **\$1+ billion in consumer credit balances transferred to Wells Fargo equity products in '99**

CORPORATE TRUST

- **Trustee for 7,000+ issues worth \$250 billion in debt.**
- **Leading trustee for privately-placed, asset-backed securities**



"Our ability to earn more business from our diverse customers is built on local decision-making, leadership by our team members who live and work in their communities, and our broad array of products and services."

John C. Nelson, Western Banking

"We want to be recognized as the premier provider of home financing and corporate trust services in each of the markets we serve and throughout America."

Mark C. Oman, Mortgage and Home Equity

"Our vision is to be a trusted gateway, the Internet portal of choice for all of our customers' financial needs."

Clyde W. Ostler, Internet Services

"We're working to satisfy the financial needs of our customers around the clock and around the world. Our new products will give them access to the money they need when, where and how they need it."

Daniel W. Porter, Norwest Financial

PRIVATE CLIENT SERVICES GROUP

- **Customers:** 500,000
- **Financial consultants:** 750
- **Trust Officers:** 525
- **Portfolio Managers:** 165
- **Private Bankers:** 120
- **States:** 21
- **Total Client Assets:** \$120 billion
- **USA's #4 largest mutual fund manager (banks)**
- **Western USA's largest personal trust company**

CONSUMER BANKING GROUP

- **Card Services customers:** 11 million (outstanding balances: \$5 billion)
- **Team members:** 3,100
- **USA's #2 largest debit card issuer**
- **USA's #3 largest ATM network**

NORWEST EQUITY PARTNERS

- **One of the USA's oldest, largest private equity investment firms; investing in buy-outs, media and communications services**
- **'99 investments:** \$160 million
- **Capital commitments:** \$1.2+ billion
- **Norwest Equity Partners VII, LP — capitalized at \$800 million**
- **Offices:** Los Angeles, Minneapolis
- **Web:** nep.com

NORWEST VENTURE PARTNERS

- **Venture capital for early stage, emerging companies in information technology including software, communications systems and services**
- **'99 investments:** \$260 million
- **Capital commitments:** \$1.2 billion
- **Norwest Venture Partners VIII, LP — capitalized at \$300 million**
- **Offices:** Palo Alto, Calif; Wellesley, Mass.
- **Web:** norwestvp.com



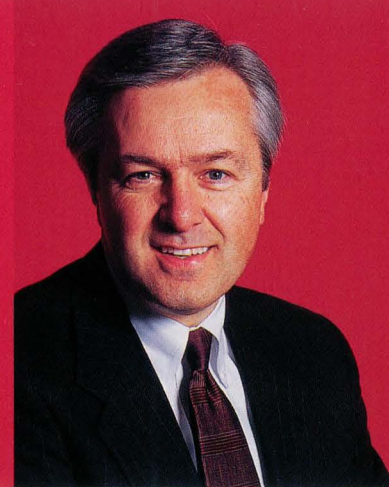
"We're passionate about making our customers' accounts work together, simply and seamlessly. We want customers to have access to their money, whenever and wherever they want."

M. Lucile Reid, Consumer Banking



"We take the long view by providing emerging information technology companies the funding, sustained guidance and strategic partnerships they need to gain momentum and success."

George J. Still, Jr., Norwest Venture Partners



"The vision of building a new company by joining the best of Wells Fargo and Norwest is coming to life in the Southwest. Our customers are showing us they approve by the dramatic increase in new business they are bringing us."

John G. Stumpf, Southwestern Banking

WHOLESALE BANKING

- '99 Net income: \$850 million
- Assets: \$42 billion
- Team members: 7,000
- Offices: 170 in 37 states
- USA's #1 agricultural lender
- USA's #1 real estate investment banker
- USA's #2 middle market bank (primary relationships)

- USA's premier real estate lender
- Ranked among USA's top 10 banks in every major product and service group
- Wholesale Banking Groups: Capital Markets, Commercial Banking, Eastdil Realty Company, Foothill Capital Corporation, Institutional

Investment Services, Wells Fargo Business Credit, Inc., Wells Fargo Equipment Finance, Inc., Real Estate Group, Shareowner Services, Treasury Management, International Group, U.S. Corporate Banking, Wells Fargo Funds

NORWEST MORTGAGE

- '99 Net income: \$277 million
- '99 Originations: \$82 billion
- Consecutive years of earnings growth: 11
- Team members: 14,000
- Customers: 2.5 million
- Stores: 530
- Number of Wells Fargo banking stores with mortgage salespeople: 585
- USA's largest retail mortgage originator

- USA's #3 largest mortgage servicer: \$280 billion
- USA's #1 lender to people of color
- USA's #1 lender to home builders
- #1 lender in one third of the USA's hottest housing markets



Through its own stores and its presence in our banking stores, Norwest Mortgage has the USA's most extensive retail mortgage franchise.

NORWEST FINANCIAL

- '99 Net income: \$247 million
- Stores: 1,265
- Receivables: \$10 billion
- Team members: 11,347
- Customers: 4 million
- Norwest Financial (consumer finance): 804 stores, 47 states.
- Trans Canada Credit (consumer finance): 148 stores, all 10 provinces.

- National Retail Credit Services (credit services to Canadian retailers)
- Island Finance (consumer finance): 102 stores, Caribbean, Latin America.
- Community Credit, Fidelity Financial Services (auto finance): 199 stores, 32 states.
- Reliable Financial Services (Puerto Rico): 3 stores.



Norwest Financial's retail network stretches from Saipan in the Pacific through Canada, across the USA, the Caribbean and into Latin America.

BOARD OF DIRECTORS

Leslie S. Biller

Vice Chairman, Chief Operating Officer
Wells Fargo & Company
San Francisco, Calif.

J.A. Blanchard III 1,2,3

Chairman, President, CEO
Deluxe Corporation
Shoreview, Minn.
(Paper and electronic payment services)

Michael R. Bowlin 4,5

Chairman, CEO
Atlantic Richfield Company
Los Angeles, Calif.
(Integrated oil company)

Edward M. Carson 2,3

Retired Chairman
First Interstate Bancorp
Los Angeles, Calif.

David A. Christensen 1,2,3

President, CEO
Raven Industries, Inc.
Sioux Falls, S.D.
(Diversified manufacturer)

William S. Davila 1,4

President Emeritus
The Vons Companies, Inc.
Los Angeles, Calif.
(Food retailing)

Susan E. Engel 3,4

Chairwoman, CEO
Department 56, Inc.
Eden Prairie, Minn.
(Specialty retailer)

Paul Hazen

Chairman
Wells Fargo & Company
San Francisco, Calif.

William A. Hodder 2,5

Retired Chairman, CEO
Donaldson Company, Inc.
Minneapolis, Minn.
(Filtration device manufacturer)

Robert L. Joss 3,5

Dean, Graduate School of Business
Stanford University
Palo Alto, Calif.
(Higher education)

Reatha Clark King 1,3

President, Executive Director
General Mills Foundation
Minneapolis, Minn.
(Charitable foundation)

Richard M. Kovacevich

President, CEO
Wells Fargo & Company
San Francisco, Calif.

Richard D. McCormick 4,5

Chairman Emeritus
U S WEST, Inc.
Englewood, Colo.
(Communications)

Cynthia H. Milligan 1,4

Dean
College of Business Administration
University of Nebraska-Lincoln
(Higher education)

Benjamin F. Montoya 1,4

Chairman, CEO
Public Service Company of
New Mexico
Albuquerque
(Public utility)

Philip J. Quigley 1,2,3

Retired Chairman, President, CEO
Pacific Telesis Group
San Francisco, Calif.
(Telecommunications)

Donald B. Rice 2,5

President, CEO
UroGenesys, Inc.
Santa Monica, Calif.
(Biotechnology)

Ian M. Rolland 4,5

Retired Chairman
Lincoln National Corporation
Fort Wayne, Ind.
(Insurance)

Judith M. Runstad 1,4

Of Counsel
Foster Pepper & Shefelman PLLC
Seattle, Wash.
(Law firm)

Susan G. Swenson 1,3

President, COO
Leap Wireless International, Inc.
San Diego, Calif.
(Wireless communications)

Daniel M. Tellep 3,4,5

Retired Chairman
Lockheed Martin Corporation
Bethesda, Md.
(Aerospace and defense manufacturer)

Chang-Lin Tien 1,4

Professor of Engineering, Former Chancellor
U. of California, Berkeley
(Higher education)

Michael W. Wright 2,3,5

Chairman, President, CEO
SUPERVALU INC.
Minneapolis, Minn.
(Food distribution, retailing)

John A. Young 2,3,5

Retired President, CEO
Hewlett-Packard Company
Palo Alto, Calif.
(Computers, peripheral equipment)

Committees

Audit and Examination...1
Board Affairs...2
Credit...3
Finance...4
Human Resources...5

CORPORATE OFFICERS*

Richard M. Kovacevich,
President, CEO

Leslie S. Biller,
Vice Chairman,
Chief Operating Officer

John A. Berg, Group EVP,
Central Banking

Patricia R. Callahan, EVP,
Human Resources

James R. Campbell, Group EVP,
Minnesota Banking

Terri A. Dial, Group EVP
California, Business Banking,
Telephone Banking,
Distribution Strategies, Insurance,
Diversified Products Group,
Education Finance

David A. Hoyt, Group EVP,
Wholesale Banking

Ross J. Kari, EVP,
Chief Financial Officer

Ely L. Licht, EVP,
Chief Credit Officer

Dennis J. Mooradian, Group EVP,
Private Client Services

John C. Nelson, Group EVP,
Western Banking

Mark C. Oman, Group EVP,
Mortgage and Home Equity

Clyde W. Ostler, Group EVP,
Internet Services Group

Daniel W. Porter, Group EVP,
Norwest Financial

Les L. Quock, SVP,
Controller

Stanley S. Stroup, EVP,
General Counsel,
Government Relations

John G. Stumpf, Group EVP,
Southwestern Banking

* Officers designated as "executive officers" according to Securities and Exchange Commission rules

SENIOR OFFICERS

George W. Fehlhaber, SVP, Treasurer
John E. Ganoie, EVP, Corporate Development
Randall Lewis, EVP, Chief Auditor
Eric D. Shand, Chief Loan Examiner

CALIFORNIA, BUSINESS BANKING, PHONE BANKING, DISTRIBUTION STRATEGIES, DIVERSIFIED PRODUCTS GROUP, INSURANCE

GROUP HEAD

Terri A. Dial
Michael R. James, Business Banking Group
Colleen M. Anderson, Business Banking
Michael Azevedo, Business Support Services
Marc Bernstein, Business Direct
Robert Brown, Business Payroll
Charles Drucker, Wells Fargo Merchant Services
Jerry Gray, National SBA Lending
Rebecca Macieira-Kaufmann, Small Business Marketing
Robert Chlebowski, Distribution Strategies Group
Leonard A. Gucciardi, Phone Bank
Timothy J. King, President, Norwest Insurance
David Braun, Life Insurance Strategy/Initiatives
Michael E. Connealy, President, Rural Community Insurance Agency, Inc.
Steven C. Veno, Norwest Insurance
Richard T. Schliesmann, Auto, Education Finance
Dianne D. Breuer, Auto Lending
Jerome W. Fons, Fleet Services
Brent C. Fossey, Auto Business Services
Jon A. Veenis, Education Finance
Keith A. Wilton, Auto Leasing

REGIONAL PRESIDENTS

Anat Bird, Northern California
Lynn A. Pike, Greater Los Angeles
Carrie L. Tolstedt, Central California
Byron A. Scordelis, San Francisco/Oakland/
San Jose Bay Area
Robert D. Worth, Southern California

REGIONAL MANAGERS

Daniel K. Bailey, North Valley
Shelley L. Benson, Downtown/
West Los Angeles
Michael F. Billeci, San Jose
Darrell R. Brown, San Fernando Valley
Pamela M. Canboy, San Gabriel Valley
Barbara A. Crist, South Alameda
Robert J. Crouch, Capital City
Caren J. Courtney, Golden Gate
Linda V. Deboe, North Peninsula
Diane P. DeRousseau, San Diego
Leo Gonzalez, South Los Angeles/South Bay
Steve R. Hafen, Pacific Coast
Andrew P. Mastorakis, Contra Costa
Gregory L. Morgan, Marin
Herb Myers, San Francisco Metro
Willie A. Natt, East Bay
Debra J. Paterson, Inland Valley
Sande Shuman, South Valley
John A. Sotoodeh, Silicon Valley
Lisa J. Stevens, San Francisco
Bonnie Martinez, Vineyards
Kim P. Young, Orange County Coastal

WESTERN BANKING GROUP

GROUP HEAD

John C. Nelson

REGIONAL PRESIDENTS

David E. Bailey, Metro Denver
Robert W. Byrne, Washington
George J. Passadore, Oregon/Idaho
Linda J. Petty, Greater Colorado/Montana/
Utah/Wyoming
Laura A. Schulte, Nevada

REGIONAL MANAGERS

Kirk V. Clausen, Northern Nevada
Dan Gasper, Northern Colorado/
Cheyenne, Wyoming
John Kerst, Northern Colorado/Wyoming
Joy Ott, Montana
Don Sall, Southern Colorado
Bryan Watters, Southern Nevada

SOUTHWESTERN BANKING GROUP

GROUP HEAD

John G. Stumpf

REGIONAL PRESIDENTS

Jon R. Campbell, Arizona
Paul W. (Chip) Carlisle, Houston
Timothy J. Coughlon, Texas Major Markets
William R. Goertz, Central Texas
Larry D. Willard, New Mexico/West Texas

REGIONAL MANAGERS

Nathan E. Christian, Border Banking
Jed Fanning, Southern/Eastern N.M./
West Texas
John T. Gavin, Fort Worth/Dallas
Thomas W. Honig, Austin
Robert A. Jung II, Albuquerque
Craig A. Ockers, Southern Arizona
Gerrit van Huisstede, Metro Phoenix
Dean A. Rennell, Phoenix Business Banking
Patrick G. Yalung, Northern Arizona

CENTRAL BANKING GROUP

GROUP HEAD

John A. Berg

REGIONAL PRESIDENTS

Terry D. Baloun, South Dakota, SW Minnesota
Kirk E. Dean, North Dakota, NW Minnesota
William J. Dewhurst, Indiana/Ohio
H. Lynn Horak, Iowa
J. Lanier Little, Illinois/Michigan/Wisconsin
Judith A. Owen, Nebraska

REGIONAL MANAGERS

Alan V. Johnson, Indiana/Ohio
J. Scott Johnson, Iowa

MINNESOTA BANKING GROUP

GROUP HEAD

James R. Campbell

REGIONAL PRESIDENT

Patrick J. Donovan, Minnesota

REGIONAL MANAGERS

Philip Rolfe, Northern Minnesota
Norbert D. Harrington, Southern Minnesota
Marilyn J. Dahl, Twin Cities Retail Banking
Gerald B. Stenson, Twin Cities Business Banking
Peter E. Glanville, Managing Principal,
Lowry Hill Investment Advisors, Inc.
Thomas Wiklund, Correspondent Banking
Robert B. Mersky,
Peregrine Capital Management, Inc.

INTERNET SERVICES GROUP

GROUP HEAD

Clyde W. Ostler

George Cheng, Technology
Stephen Ellis, Wholesale Internet Services
Shelley Freeman, Investment Internet Services
Catherine Graeber, Retail Product Management
Regina Wallace, Retail Customer Service
Avid Modjtabei, Strategy Group
Debra Rossi, Business Banking
Internet Services

MORTGAGE AND HOME EQUITY GROUP

GROUP HEAD

Mark C. Oman, Chairman and CEO,
Norwest Mortgage, Inc.

NORWEST MORTGAGE, INC.

Peter J. Wissinger, President, COO
Cara K. Heiden, National Consumer Lending Sales
Joseph W. Rogers, National Consumer Lending Sales
Chuck Ohmer, National Consumer Lending Sales
Michael Heid, Loan Servicing
Daniel Russell, Emerging Markets
Ben C. Smith, Institutional Lending/
Cross-Sell/Home Services
Geoffrey H. Dreyer, Managing Director,
Risk Management
James Engelhardt, Risk Management
Joy Griffiths, Marketing and Operation

HOME EQUITY LENDING

Doreen Woo Ho, Group Managing Director
Robert J. Frame, Delivery and Fulfillment
Marshall R. Miller, Strategic Risk Management
Thomas Tolda, CFO
Kathleen L. Vaughan, Directors Acceptance Corporation, Norwest Direct
Colin D. Walsh, Marketing
James M. Wyble, Equity Resources

CORPORATE TRUST SERVICE

Brian Bartlett, Business Manager

PRIVATE CLIENT SERVICES

GROUP HEAD

Dennis J. Mooradian

Senior Managing Directors

Michael J. Conway, Western/Southern Division
Charles W. Daggs, III, California Division
John Farrish, Central Division

Regional Managing Directors

Joe W. DeFur, Northwest Region
Dennis Hoffman, Great Plains Region
David Jones, Southern Region
Robert Roszkos, Southern California Region
James Urbanek, Midwest Region

Managing Directors

Lance Fox, Private Banking
Timothy J. Leach, Chief Investment Officer
David J. Pittman, Personal Trust
David Skolnik, Sales and Marketing

WHOLESALE BANKING

GROUP HEAD

David A. Hoyt

Paul M. Watson, Commercial and U.S. Corporate Banking Groups
Iris S. Chan, Northern California, Pacific Northwest
William W. Henderson, Nevada, Utah, Central California
Robert A. Chereck, Arizona, Texas
Albert (Rick) F. Ehrke, Southern California
Richard P. Ferris, Corporate Banking, Treasury Management Sales, Shareowner Services
Catherine G. Kulkin, Wholesale Loan Services
Michael J. Loughlin, Senior Credit Officer, Commercial, Corporate
Timothy J. Sloan, Capital Markets
Stephen Ashley, Leveraged Finance, Mezzanine, Communications Lending
Edward Blakey, Commercial Mortgage Origination
Saturnino Fanlo, High Yield Securities, Financial Products, Rate Risk Management
Mark L. Myers, Merchant Banking
J. Michael Johnson, Structured Finance, Distribution
James R. Renner, President, Wells Fargo Equipment Finance, Inc.

A. Larry Chapman, Real Estate Group
Nancy Altobello, Construction Lending Advisory Group
Robin W. Michel, Northern California, Northwest
James H. Muir, Midwest East Coast
Stephen P. Prinz, Texas, Central US
Timothy W. Washburn, Southern California
Thomas J. Davis, Senior Credit Officer, Real Estate
David J. Zuercher, International Group, Wells Fargo HSBC Trade Bank
David Weber, President, CEO, Wells Fargo HSBC Trade Bank
Peter P. Connolly, Foreign Exchange
John F. Nickoll, Chairman and Chief Executive Officer, The Foothill Group, Inc.
Peter E. Schwab, President, Foothill Capital Corporation
Martin J. McKinley, President, Wells Fargo Business Credit, Inc.
Benjamin V. Lambert, Chairman, Eastdil Realty Company, L.L.C.
Roy March, President
Donald E. Dana, Properties

Michael J. Niedermeyer, Institutional Investment Services
Robert W. Bissell, President, Wells Capital Management
Michael J. Hogan, Mutual Funds
P. Jay Kiedrowski, Trust Operations
James Paulsen, Wells Capital Management

NORWEST EQUITY PARTNERS

John E. Lindahl, Managing Partner

NORWEST VENTURE PARTNERS

George J. Still, Jr., Managing Partner

CONSUMER BANKING GROUP

M. Lucile Reid, EVP

Leslie L. Altick, Checking, Fee-Based Services, Deposit Risk Operations
Alan Blenner, Personal Lines and Loans
Kevin Moss, Risk Management and Finance
Kevin Rhein, Card Services
P. Andrew Will, Savings, Investment Products, Premier Banking

NORWEST FINANCIAL

GROUP HEAD

Daniel W. Porter, Chairman, CEO,
Norwest Financial, Inc.

Thomas P. Shippee, President, COO
Dennis N. Johnston, Sapphire Technologies
Ronald L. Lottes, U.S. Consumer
John W. Sondereker, Latin America
Dennis E. Young, CFO
Rex J. Ellison, Marketing
James R. Fisher, U.S. Auto Lending
James E. Goodson, Human Resources
Tammeria K. Hawks, Division Manager, U.S. Consumer
Greg M. Janasko, Commercial Business Group
Curtis H. Martin, Division Manager, U.S. Consumer
Patricia J. McFarland, General Counsel, Secretary
Eric T. Torkelson, Accounting
John E. Van Leeuwen, Canadian Operations

TECHNOLOGY AND OPERATIONS GROUP

C. Webb Edwards, EVP

TECHNOLOGY SERVICES

Kevin B. Dabney,
Transition Management Office
Susan A. Blew, Enterprise Infrastructure
Kenneth R. Chrisman, Retail and Consumer Banking
Kathryn J. DeWit, New Technology Business/
Corporate Local Area Networks
Mike D. Noble, Shared Application Development
Wayne A. Mekjian, Chief Technology Officer, Operations
Ashok Moorthy, Investment Group
William J. Wood, Chief Technology Officer, Wholesale
Anthony M. Padinha, Data Centers
Walter L. Jones, Data Centers
Rebecca S. Wanta, Chief Technology Officer
Spencer Murray, Mortgage

OPERATIONS SERVICES

Diana Starcher, Payment Services
Terry L. Allen, Operations Services

MARKETING

Cynthia J. Gray, EVP

Karen M. Almes, Privacy Policies
Shirley A. Brinks, Merger Integration
Timothy J. Collins, Brand Execution
Melinda M. Denton, Market Research
Elizabeth Dobel, Advertising and Brand Strategy
Deborah E. Moore, Customer Information and Development
Jeff P. White, Finance

WE CONNECT— STORES STATE BY STATE

Alabama	43	Montana	71
Alaska	8	Nebraska	76
Arizona	412	Nevada	160
Arkansas	10	New Hampshire	4
California	1,197	New Jersey	19
Colorado	204	New Mexico	146
Connecticut	7	New York	38
Delaware	6	North Carolina	55
Florida	73	North Dakota	59
Georgia	45	Ohio	58
Hawaii	11	Oklahoma	21
Idaho	34	Oregon	162
Illinois	68	Pennsylvania	45
Indiana	98	Rhode Island	6
Iowa	123	South Carolina	31
Kansas	12	South Dakota	94
Kentucky	21	Tennessee	36
Louisiana	38	Texas	588
Maine	5	Utah	50
Maryland	39	Vermont	1
Massachusetts	25	Virginia	26
Michigan	24	Washington	190
Minnesota	375	West Virginia	9
Mississippi	19	Wisconsin	112
Missouri	43	Wyoming	26

Total 5,023

CANADA

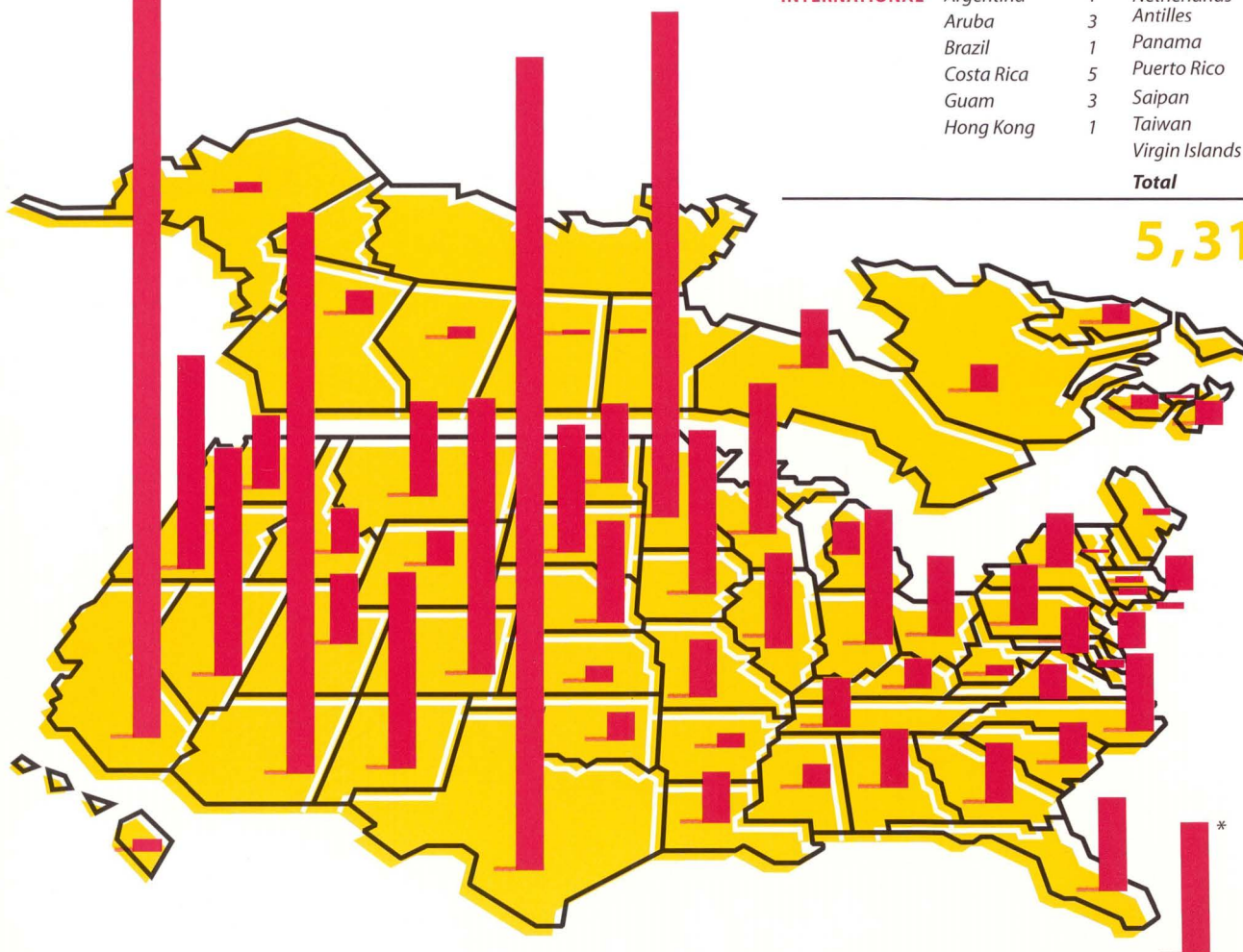
Alberta	10	Ontario	44
British Columbia	19	Prince Edward Island	2
Manitoba	4	Quebec	21
New Brunswick	12	Saskatchewan	4
Newfoundland	15		
Nova Scotia	17	Total	148

INTERNATIONAL

Argentina	1	Netherlands	
Aruba	3	Antilles	8
Brazil	1	Panama	16
Costa Rica	5	Puerto Rico	91
Guam	3	Saipan	1
Hong Kong	1	Taiwan	1
		Virgin Islands	8

Total 139

5,310



FINANCIAL REVIEW

34	Overview
35	Factors that May Affect Future Results
38	Operating Segment Results
39	Earnings Performance
39	Net Interest Income
39	Noninterest Income
42	Noninterest Expense
43	Earnings/Ratios Excluding Goodwill and Nonqualifying Core Deposit Intangible
44	Balance Sheet Analysis
44	Securities Available for Sale (table on page 63)
45	Loan Portfolio (table on page 64)
45	Nonaccrual and Restructured Loans and Other Assets
47	Allowance for Loan Losses (table on page 66)
47	Deposits
48	Market Risk
49	Derivative Financial Instruments
49	Liquidity and Capital Management
51	Comparison of 1998 to 1997
51	Additional Information

FINANCIAL STATEMENTS

52	Consolidated Statement of Income
53	Consolidated Balance Sheet
54	Consolidated Statement of Changes in Stockholders' Equity and Comprehensive Income
55	Consolidated Statement of Cash Flows
56	Notes to Financial Statements (index on page 100)

97 INDEPENDENT AUDITORS' REPORT

98 QUARTERLY FINANCIAL DATA

100 INDEX



OVERVIEW

Wells Fargo & Company is a \$218 billion diversified financial services company providing banking, mortgage and consumer finance through about 5,300 stores, the Internet and other distribution channels throughout North America, including all 50 states, and elsewhere internationally. It ranks seventh in assets at December 31, 1999 among U.S. bank holding companies. In this Annual Report, Wells Fargo & Company together with its subsidiaries is referred to as the Company and Wells Fargo & Company alone is referred to as the Parent.

On November 2, 1998, the merger involving Norwest Corporation and Wells Fargo & Company (the Merger) was completed. Norwest Corporation changed its name to "Wells Fargo & Company" and the former Wells Fargo & Company (the former Wells Fargo) became a wholly-owned subsidiary of Norwest Corporation. Norwest Corporation as it was before the Merger is referred to as the former Norwest. The Merger was accounted for as a pooling of interests and, accordingly, the information included in the financial review presents the combined results as if the Merger had been in effect for all periods presented.

Certain amounts in the financial review for prior years have been reclassified to conform with the current financial statement presentation.

Net income in 1999 was \$3,747 million, compared with \$1,950 million in 1998, an increase of 92%. Diluted earnings per common share were \$2.23, compared with \$1.17 in 1998, an increase of 91%.

Return on average assets (ROA) was 1.85% and return on average common equity (ROE) was 17.66% in 1999, compared with 1.04% and 9.86%, respectively, in 1998.

Diluted earnings before the amortization of goodwill and nonqualifying core deposit intangible (CDI) ("cash" earnings) were \$2.56 per share in 1999, compared with \$1.50 per share in 1998. On the same basis, ROA was 2.22% and ROE was 34.08% in 1999, compared with 1.39% and 23.15%, respectively, in 1998.

Net interest income on a taxable-equivalent basis was \$9,419 million in 1999, compared with \$9,049 million a year ago. The Company's net interest margin was 5.66% for 1999, compared with 5.79% in 1998.

Noninterest income increased to \$7,420 million in 1999 from \$6,427 million in 1998, an increase of 15%. The increase was primarily due to higher net venture capital gains, partly offset by a loss on the sale of investment securities.

Noninterest expense totaled \$9,782 million in 1999, compared with \$10,579 million in 1998. The decrease was primarily due to fourth quarter 1998 Merger-related and other charges.

The provision for loan losses was \$1,045 million in 1999, compared with \$1,545 million in 1998. During 1999, net charge-offs were \$1,049 million, or .94% of average total loans, compared with \$1,617 million, or 1.52%, during 1998. The allowance for loan losses was \$3,170 million, or 2.65% of total loans, at December 31, 1999, compared with \$3,134 million, or 2.90%, at December 31, 1998.

At December 31, 1999, total nonaccrual and restructured loans were \$669 million, or .6% of total loans, compared with \$710 million, or .7%, at December 31, 1998. Foreclosed assets were \$153 million at December 31, 1999, compared with \$148 million at December 31, 1998.

The ratio of common stockholders' equity to total assets was 10.02% at both December 31, 1999 and 1998. The Company's total risk-based capital (RBC) ratio at December 31, 1999 was 10.50% and its Tier 1 RBC ratio was 8.07%, exceeding the minimum regulatory guidelines of 8% and 4%, respectively, for bank holding companies. The Company's RBC ratios at December 31, 1998 were 10.90% and 8.08%, respectively. The Company's leverage ratios were 6.77% and 6.58% at December 31, 1999 and 1998, respectively, exceeding the minimum regulatory guideline of 3% for bank holding companies.

RECENT ACCOUNTING STANDARDS

In June 1998, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 133 (FAS 133), *Accounting for Derivative Instruments and Hedging Activities*. In July 1999, the FASB issued Statement No. 137, *Deferral of the Effective Date of FASB Statement No. 133*, that deferred the effective date of FAS 133 to no later than January 1, 2001 for the Company's financial statements. FAS 133 requires companies to record derivatives on the balance sheet at fair value. Changes in the fair values of those derivatives would be reported in earnings or other comprehensive income depending on the use of the derivative and whether it qualifies for hedge accounting. The key criterion for hedge accounting is that the hedging relationship must be highly effective in achieving offsetting changes in fair value of assets or liabilities or cash flows from forecasted transactions. The Company does not expect to implement FAS 133 before January 1, 2001 and has not completed the complex analysis required to determine the impact on the financial statements.

TABLE 1: RATIOS AND PER COMMON SHARE DATA

(\$ in millions, except per share amounts)	Year ended December 31,		
	1999	1998	1997
PROFITABILITY RATIOS			
Net income to average total assets (ROA)	1.85%	1.04%	1.37%
Net income applicable to common stock to average common stockholders' equity (ROE)	17.66	9.86	12.81
Net income to average stockholders' equity	17.45	9.81	12.67
EFFICIENCY RATIO ⁽¹⁾	58.3%	68.5%	62.8%
NET INCOME AND RATIOS EXCLUDING GOODWILL AND NONQUALIFYING CORE DEPOSIT INTANGIBLE (CDI) AMORTIZATION AND BALANCES ("CASH") ⁽²⁾			
Net income applicable to common stock	\$4,269	\$2,465	\$3,031
Earnings per common share	2.59	1.52	1.85
Diluted earnings per common share	2.56	1.50	1.83
ROA	2.22%	1.39%	1.78%
ROE	34.08	23.15	30.49
Efficiency ratio	54.6	64.3	57.8
CAPITAL RATIOS			
At year end:			
Common stockholders' equity to assets	10.02%	10.02%	10.40%
Stockholders' equity to assets	10.15	10.25	10.65
Risk-based capital ⁽³⁾			
Tier 1 capital	8.07	8.08	8.16
Total capital	10.50	10.90	11.20
Leverage ⁽³⁾	6.77	6.58	6.72
Average balances:			
Common stockholders' equity to assets	10.37	10.31	10.52
Stockholders' equity to assets	10.60	10.56	10.82
PER COMMON SHARE DATA			
Dividend payout ⁽⁴⁾	35%	59%	41%
Book value	\$13.44	\$12.35	\$11.92
Market prices ⁽⁵⁾ :			
High	\$49.94	\$43.88	\$39.50
Low	32.13	27.50	21.38
Year end	40.44	39.94	38.75

(1) The efficiency ratio is defined as noninterest expense divided by total revenue (net interest income and noninterest income).

(2) Nonqualifying core deposit intangible (acquired after regulatory rule changes in 1992) amortization and average balance excluded from these calculations are, with the exception of the efficiency and ROA ratios, net of applicable taxes. The pretax amount for the average balance of nonqualifying CDI was \$1,323 million for the year ended December 31, 1999. The after-tax amounts for the amortization and average balance of nonqualifying CDI were \$111 million and \$820 million, respectively, for the year ended December 31, 1999. Goodwill amortization and average balance (which are not tax effected) were \$447 million and \$7,666 million, respectively, for the year ended December 31, 1999. See page 43 for additional information.

(3) See Note 22 to Financial Statements for additional information.

(4) Dividends declared per common share as a percentage of earnings per common share.

(5) Based on daily prices reported on the New York Stock Exchange Composite Transaction Reporting System.

FACTORS THAT MAY AFFECT FUTURE RESULTS

This document and other documents filed by the Company with the Securities and Exchange Commission (SEC) have forward-looking statements. In addition, the Company's senior management may make forward-looking statements orally to analysts, investors, the media and others. Those forward-looking statements might include one or more of the following:

- Projections of revenues, income, earnings per share, capital expenditures, dividends, capital structure or other financial items;
- Descriptions of plans or objectives of management for future operations, products or services;
- Forecasts of future economic performance; and
- Descriptions of assumptions underlying or relating to any of the foregoing.

Forward-looking statements can be identified by the fact that they do not relate strictly to historical or current facts. They often include words such as "believe," "expect," "anticipate," "intend," "plan," "estimate," or words of similar meaning, or future or conditional verbs such as "will," "would," "should," "could" or "may."

Forward-looking statements give the Company's expectations or predictions of future conditions, events or results. They are not guarantees of future performance. By their nature, forward-looking statements are subject to risks and uncertainties. There are a number of factors — many of which are beyond the Company's control — that could cause actual conditions, events or results to differ significantly from those described in the forward-looking statements.

Some of these factors are described below. Other factors, such as credit, market, operational, liquidity, interest rate, Year 2000 and other risks, are described elsewhere in this report. Factors relating to the regulation and supervision of the Company are also described or incorporated in the Company's Annual Report on Form 10-K filed with the SEC. There are other factors besides those described or incorporated in this report or in the Form 10-K that could cause actual conditions, events or results to differ from those in the forward-looking statements.

Forward-looking statements speak only as of the date they are made. The Company does not undertake to update forward-looking statements to reflect circumstances or events that occur after the date the forward-looking statements are made.

TABLE 2: SIX-YEAR SUMMARY OF SELECTED FINANCIAL DATA

(in millions, except per share amounts)	1999	1998	1997	1996	1995	1994	% Change 1999/ 1998	Five-year compound growth rate
INCOME STATEMENT								
Net interest income	\$ 9,355	\$ 8,990	\$ 8,648	\$ 8,222	\$ 5,923	\$ 5,414	4 %	12%
Provision for loan losses	1,045	1,545	1,140	500	312	365	(32)	23
Noninterest income	7,420	6,427	5,675	4,769	3,179	2,813	15	21
Noninterest expense	9,782	10,579	8,990	8,724	5,589	5,225	(8)	13
Net income	3,747	1,950	2,499	2,228	1,988	1,642	92	18
Earnings per common share	\$ 2.26	\$ 1.18	\$ 1.50	\$ 1.38	\$ 1.66	\$ 1.40	92	10
Diluted earnings per common share	2.23	1.17	1.48	1.36	1.62	1.36	91	10
Dividends declared per common share	.785	.70	.615	.525	.45	.383	12	15
BALANCE SHEET								
(at year end)								
Securities available for sale	\$ 38,518	\$ 31,997	\$ 27,872	\$ 29,752	\$ 24,163	\$ 25,949	20 %	8%
Loans	119,464	107,994	106,311	105,760	70,780	66,575	11	12
Allowance for loan losses	3,170	3,134	3,062	3,059	2,711	2,872	1	2
Goodwill	7,702	7,664	8,062	8,200	1,212	574	—	68
Assets	218,102	202,475	185,685	188,633	122,200	112,674	8	14
Core deposits	126,198	132,289	122,327	128,178	77,355	72,738	(5)	12
Long-term debt	23,375	19,709	17,335	18,142	16,726	12,039	19	14
Guaranteed preferred beneficial interests in Company's subordinated debentures	785	785	1,299	1,150	—	—	—	—
Common stockholders' equity	21,860	20,296	19,315	19,262	8,448	6,628	8	27
Stockholders' equity	22,131	20,759	19,778	20,051	9,239	7,629	7	24

BUSINESS AND ECONOMIC CONDITIONS. The Company's business and earnings are sensitive to general business and economic conditions in the United States and abroad. These conditions include short-term and long-term interest rates, inflation, monetary supply, fluctuations in both debt and equity capital markets, and the strength of the U.S. economy, in general, and the local economies in which the Company conducts business. Should any of these conditions worsen in the United States or abroad, the Company's business and earnings could be adversely affected. For example, an economic downturn or higher interest rates could decrease the demand for loans and other products and services offered by the Company and/or increase the number of customers and counterparties who become delinquent or who default on their loans or other obligations to the Company. An increase in the number of delinquencies or defaults would result in a higher level of charge-offs and a higher level of loan loss provision, which could adversely affect the Company's earnings. Higher interest rates would also increase the Company's cost to borrow funds and may increase the rate paid on deposits, which could more than offset, in the net interest margin, the increase in rates earned by the Company on new or floating rate loans or short-term investments. See "Market Risk" for more information on interest rate risk.

COMPETITION. The Company operates in a highly competitive environment both in terms of the products and services the Company offers and the geographic markets in which the Company conducts business. The Company expects this environment to become even more competitive in the future as a result of legislative, regulatory and technological changes and the continued trend of consolidation in the financial services industry. Technological advances, for example, have lowered barriers to entry and made it possible for non-depository institutions to offer products and services that traditionally have been provided by banks, such as automatic transfer and automatic payment systems. Also, investment banks and insurance companies are competing in an increasing number of traditional banking businesses such as syndicated lending and consumer banking. Many of the Company's competitors enjoy the benefits of advanced technology, fewer regulatory constraints and lower cost structures.

The financial services industry is likely to become even more competitive as technological advances enable more companies to provide financial services. The Company expects that the consolidation of the financial services industry will result in larger, better capitalized companies offering a wide array of financial services and products. Furthermore, recent legislative changes (see "Legislation" below) will increase competition in the financial services industry.

FISCAL AND MONETARY POLICIES. The Company's business and earnings are affected significantly by the fiscal and monetary policies of the federal government and its agencies. The Company is particularly affected by the policies of the Federal Reserve Board, which regulates the supply of money and credit in the United States. The Federal Reserve Board's policies directly and indirectly influence the rate of interest that commercial banks pay on their interest-bearing deposits and can also affect the value of financial instruments held by the Company. Those policies also determine to a significant extent the cost to the Company of funds for lending and investing. Changes in those policies are beyond the Company's control and hard to predict. Federal Reserve Board policies can also affect the Company's customers and counterparties, potentially increasing the risk that such customers and counterparties may become delinquent or default on their obligations to the Company.

DISINTERMEDIATION. "Disintermediation" is the process of eliminating the role of the mediator (or middleman) in completing a transaction. For the financial services industry, this means eliminating or significantly reducing the role of banks and other depository institutions in completing transactions that have traditionally involved banks at one end or both ends of the transaction. For example, technological advances now allow parties to pay bills and transfer funds directly without the involvement of banks. Important consequences of this disintermediation include the loss of customer deposits (and the income generated from those deposits) and decreases in transactions that generate fee income.

LEGISLATION. The Gramm-Leach-Bliley Act (the Act) permits, effective March 2000, affiliation among banks, securities firms and insurance companies by creating a new type of financial services company called a "financial holding company". Financial holding companies may offer virtually any type of financial service, including banking, securities underwriting, insurance (both agency and underwriting) and merchant banking. Under the Act, securities firms and insurance companies that elect to become a financial holding company may acquire banks and other financial institutions. The Act significantly changes the competitive environment in which the Company conducts business.

MERGER INVOLVING THE FORMER NORWEST AND THE FORMER WELLS FARGO. One or more factors relating to the Merger could adversely impact the Company's business and earnings and in particular reduce the expected benefits of the Merger to the Company. These factors include the following:

- expected cost savings and/or potential revenue enhancements from the Merger might not be fully realized or realized within the expected time frame;
- deposit attrition (run-off), customer loss and/or revenue loss following the Merger might be greater than expected; and
- costs or difficulties related to the integration of the businesses of the two companies might be greater than expected.

OTHER MERGERS AND ACQUISITIONS. The Company expands its business in part by acquiring banks and other companies engaged in financial services. The Company continues to explore opportunities to acquire banking institutions and other companies. Discussions are continually being carried on related to such acquisitions. Generally, management of the Company does not comment on such discussions or possible acquisitions until a definitive agreement has been signed. A number of factors related to past and future acquisitions could adversely affect the Company's business and earnings, including those described above for the Norwest/Wells Fargo merger. In addition, the Company's acquisitions generally are subject to approval by federal and, in some cases, state regulatory agencies. The failure to receive required regulatory approvals within the time frame or on the conditions expected by management could also adversely affect the Company's business and earnings.

OPERATING SEGMENT RESULTS

COMMUNITY BANKING'S net income was \$2,864 million in 1999, compared with \$1,376 million in 1998, an increase of 108%. This increase resulted from Merger-related charges in 1998, as well as significant growth in noninterest income in 1999, reflecting increased fee-based revenue and venture capital gains. Growth in consumer checking accounts also contributed to the increase in noninterest income. Net interest income increased by \$361 million, or 6%, compared with 1998. A significant portion of the increase was due to growth in business and construction loans to small businesses. The provision for loan losses decreased by \$105 million from 1998. Noninterest expense decreased by \$971 million from 1998, primarily due to the 1998 Merger-related charges, including irrevocable commitments to the Company's Foundation in connection with the Merger.

WHOLESALE BANKING'S net income was \$850 million in 1999, compared with \$780 million in 1998, an increase of 9%. Net interest income increased \$84 million, or 6%, from 1998, due to growth in loan volumes. Commercial loan balances increased \$2,185 million, or 7%, from 1998. Noninterest income increased by \$157 million, or 15%, compared with 1998, predominantly due to increased institutional trust and investment fees, foreign exchange and other fees. Noninterest expense increased by \$116 million, or 11%, from 1998, partially due to contract services and professional fee expenses from Merger-related integration activities.

NORWEST MORTGAGE earned \$277 million in 1999, a 28% increase over the \$217 million earned in 1998. Mortgage originations were \$82 billion in 1999, compared with \$109 billion in 1998. The percentage of originations attributed to mortgage loan refinancings was approximately 37% in 1999, compared with 52% in 1998. The servicing portfolio increased to \$280 billion at December 31, 1999 from \$245 billion at December 31, 1998. The weighted average coupon of loans in the servicing portfolio was 7.33% at December 31, 1999, compared with 7.42% a year earlier. Total capitalized mortgage servicing rights amounted to \$4.5 billion, or 1.6%, of the servicing portfolio at December 31, 1999. Amortization of capitalized mortgage servicing rights was \$683 million in 1999, compared with \$786 million in 1998. Combined gains on sales of mortgages and servicing rights were \$186 million in 1999, compared with \$303 million in 1998.

NORWEST FINANCIAL reported net income of \$247 million in 1999, compared with a \$19 million net loss in 1998. Results in 1998 included a \$351 million charge to the provision for loan losses that included losses at Island Finance reflecting a review of the loan portfolio and realignment of charge-off policies in other operating units. Net interest income increased by \$11 million from 1998, due to growth in average loans, substantially offset by a decrease in the net interest margin.

EARNINGS PERFORMANCE

NET INTEREST INCOME

Net interest income is the difference between interest income (which includes yield-related loan fees) and interest expense. Net interest income on a taxable-equivalent basis was \$9,419 million in 1999, compared with \$9,049 million in 1998. The increase in net interest income for 1999 compared with 1998 was primarily due to an increase in earning assets.

Net interest income on a taxable-equivalent basis expressed as a percentage of average total earning assets is referred to as the net interest margin, which represents the average net effective yield on earning assets. For 1999, the net interest margin was 5.66%, compared with 5.79% in 1998. The decrease in the net interest margin for 1999 compared with 1998 was primarily due to higher balances of lower yielding investment securities and lower yields on consumer loans. During the fourth quarter of 1999, the Company restructured its debt securities available for sale portfolio by selling a portion of the portfolio and subsequently purchasing debt securities with comparatively higher yields. The Company expects that the positive effect on the net interest margin of that restructuring will begin to be realized in the first quarter of 2000.

Table 4 presents the individual components of net interest income and the net interest margin.

Interest income included hedging income of \$169 million in 1999, compared with \$93 million in 1998. Interest expense was offset by hedging income of \$105 million in 1999, compared with an offset of \$94 million in 1998.

NONINTEREST INCOME

Table 3 shows the major components of noninterest income.

TABLE 3: NONINTEREST INCOME

(in millions)	Year ended December 31,			% Change	
	1999	1998	1997	1999/ 1998	1998/ 1997
Service charges on deposit accounts	\$1,492	\$1,357	\$1,244	10 %	9 %
Trust and investment fees:					
Asset management and custody fees	749	676	603	11	12
Mutual fund and annuity sales fees	415	300	273	38	10
All other	92	92	78	—	18
Total trust and investment fees	1,256	1,068	954	18	12
Credit card fees	538	520	448	3	16
Other fees:					
Cash network fees	275	229	176	20	30
Charges and fees on loans	313	290	254	8	14
All other	442	427	396	4	8
Total other fees	1,030	946	826	9	15
Mortgage banking:					
Origination and other closing fees	380	530	314	(28)	69
Servicing fees, net of amortization	410	19	324	—	(94)
Net gains (losses) on sales of mortgage servicing rights	—	16	(8)	(100)	—
Net gains on sales of mortgages	221	296	120	(25)	147
All other	228	245	177	(7)	38
Total mortgage banking	1,239	1,106	927	12	19
Insurance	383	348	336	10	4
Net venture capital gains	1,008	113	191	792	(41)
Net (losses) gains on securities available for sale	(241)	169	99	—	71
Income from equity investments accounted for by the:					
Cost method	138	151	157	(9)	(4)
Equity method	86	47	57	83	(18)
Net gains on sales of loans	32	61	30	(48)	103
Net gains on dispositions of operations	107	100	15	7	567
All other	352	441	391	(20)	13
Total	<u>\$7,420</u>	<u>\$6,427</u>	<u>\$5,675</u>	<u>15 %</u>	<u>13 %</u>

TABLE 4: AVERAGE BALANCES, YIELDS AND RATES PAID (TAXABLE-EQUIVALENT BASIS) (1)(2)

(in millions)	1999			1998		
	Average balance	Yields/ rates	Interest income/ expense	Average balance	Yields/ rates	Interest income/ expense
EARNING ASSETS						
Federal funds sold and securities purchased under resale agreements	\$ 1,390	5.01%	\$ 70	\$ 1,652	5.58%	\$ 92
Securities available for sale ⁽³⁾ :						
Securities of U.S. Treasury and federal agencies	5,611	5.45	316	4,868	5.94	287
Securities of U.S. states and political subdivisions	1,796	8.33	145	1,528	8.50	124
Mortgage-backed securities:						
Federal agencies	19,961	6.83	1,366	17,194	7.05	1,187
Private collateralized mortgage obligations	3,048	6.85	211	2,841	6.74	190
Total mortgage-backed securities	23,009	6.84	1,577	20,035	7.01	1,377
Other securities	3,653	6.59	192	1,783	5.06	103
Total securities available for sale	34,069	6.65	2,230	28,214	6.80	1,891
Securities held to maturity	—	—	—	—	—	—
Total securities	34,069	6.65	2,230	28,214	6.80	1,891
Loans held for sale ⁽³⁾	5,080	7.33	372	4,804	7.71	371
Mortgages held for sale ⁽³⁾	12,088	7.00	853	12,978	6.92	898
Loans:						
Commercial	36,023	8.75	3,153	33,271	8.93	2,971
Real estate 1-4 family first mortgage	12,203	7.66	934	12,932	7.75	1,003
Other real estate mortgage	17,297	8.76	1,515	16,257	9.37	1,523
Real estate construction	4,189	9.29	389	3,601	9.39	338
Consumer:						
Real estate 1-4 family junior lien mortgage	11,646	9.95	1,159	10,703	10.42	1,115
Credit card	5,373	13.71	737	6,012	14.96	900
Other revolving credit and monthly payment	16,131	12.51	2,018	16,497	12.78	2,109
Total consumer	33,150	11.81	3,914	33,212	12.42	4,124
Lease financing	6,997	7.80	546	5,608	8.22	461
Foreign	1,515	21.02	318	1,324	20.96	277
Total loans ⁽⁴⁾⁽⁵⁾	111,374	9.67	10,769	106,205	10.07	10,697
Other	2,958	4.90	145	2,853	5.82	166
Total earning assets	<u>\$166,959</u>	8.67	<u>14,439</u>	<u>\$156,706</u>	9.03	<u>14,115</u>
FUNDING SOURCES						
Deposits:						
Interest-bearing checking	\$ 2,754	.95	26	\$ 2,699	1.31	35
Market rate and other savings	56,123	2.27	1,274	52,431	2.61	1,367
Savings certificates	25,693	4.76	1,222	27,749	5.22	1,448
Other time deposits	3,473	4.98	173	4,040	5.49	222
Deposits in foreign offices	1,326	4.68	62	801	4.82	39
Total interest-bearing deposits	89,369	3.09	2,757	87,720	3.55	3,111
Short-term borrowings	18,356	5.04	924	14,454	5.37	777
Long-term debt	21,718	5.89	1,279	17,411	6.30	1,097
Guaranteed preferred beneficial interests in Company's subordinated debentures	785	7.58	60	1,010	8.06	81
Total interest-bearing liabilities	130,228	3.85	5,020	120,595	4.20	5,066
Portion of noninterest-bearing funding sources	36,731	—	—	36,111	—	—
Total funding sources	<u>\$166,959</u>	3.01	<u>5,020</u>	<u>\$156,706</u>	3.24	<u>5,066</u>
Net interest margin and net interest income on a taxable-equivalent basis ⁽⁶⁾		<u>5.66%</u>	<u>\$ 9,419</u>		<u>5.79%</u>	<u>\$ 9,049</u>
NONINTEREST-EARNING ASSETS						
Cash and due from banks	\$ 11,435			\$ 10,669		
Goodwill	7,666			7,865		
Other	16,563			13,115		
Total noninterest-earning assets	<u>\$ 35,664</u>			<u>\$ 31,649</u>		
NONINTEREST-BEARING FUNDING SOURCES						
Deposits	\$ 42,661			\$ 40,922		
Other liabilities	8,260			6,958		
Preferred stockholders' equity	461			463		
Common stockholders' equity	21,013			19,417		
Noninterest-bearing funding sources used to fund earning assets	(36,731)			(36,111)		
Net noninterest-bearing funding sources	<u>\$ 35,664</u>			<u>\$ 31,649</u>		
TOTAL ASSETS	<u>\$202,623</u>			<u>\$188,355</u>		

(1) The average prime rate of the Company was 8.00%, 8.35%, 8.44%, 8.27% and 8.83% for 1999, 1998, 1997, 1996 and 1995, respectively. The average three-month London Interbank Offered Rate (LIBOR) was 5.42%, 5.56%, 5.74%, 5.51% and 6.04% for the same years, respectively.

(2) Interest rates and amounts include the effects of hedge and risk management activities associated with the respective asset and liability categories.

(3) Yields are based on amortized cost balances.

1997			1996			1995		
Average balance	Yields/rates	Interest income/expense	Average balance	Yields/rates	Interest income/expense	Average balance	Yields/rates	Interest income/expense
\$ 1,131	5.39%	\$ 61	\$ 1,596	5.46%	\$ 87	\$ 645	5.83%	\$ 38
5,078	6.16	312	3,730	5.95	221	1,604	6.60	105
1,352	8.49	112	907	8.89	79	124	20.80	9
19,844	7.13	1,403	20,199	6.98	1,410	13,897	7.27	1,017
3,024	6.81	206	2,852	6.51	187	1,252	6.39	82
22,868	7.09	1,609	23,051	6.92	1,597	15,149	7.19	1,099
1,373	4.72	67	1,567	5.03	77	750	12.06	50
30,671	6.88	2,100	29,255	6.76	1,974	17,627	7.48	1,263
—	—	—	—	—	—	7,666	5.40	477
30,671	6.88	2,100	29,255	6.76	1,974	25,293	5.40	1,740
3,849	8.11	312	3,560	9.22	328	2,557	8.88	227
6,741	7.27	490	6,889	7.68	529	4,996	7.86	393
29,951	9.18	2,748	27,547	9.15	2,520	17,773	9.67	1,718
15,866	8.75	1,341	15,522	8.64	1,301	11,883	8.51	976
16,205	9.58	1,552	15,612	9.21	1,438	11,742	9.40	1,104
3,298	9.92	327	2,940	10.25	301	1,833	10.06	184
9,880	9.39	949	8,995	9.11	844	7,512	8.64	678
6,663	14.53	968	6,505	15.03	979	5,939	15.54	923
16,947	12.42	2,105	16,505	12.25	2,022	10,887	13.26	1,444
33,490	12.28	4,022	32,005	12.24	3,845	24,338	13.16	3,045
4,285	8.38	359	3,347	8.15	272	2,284	8.51	194
1,042	20.31	212	950	20.52	195	704	23.01	162
104,137	10.14	10,561	97,923	10.08	9,872	70,557	10.47	7,383
2,273	5.93	134	1,696	5.51	94	940	5.87	55
<u>\$148,802</u>	9.19	<u>\$13,658</u>	<u>\$140,919</u>	9.15	<u>12,884</u>	<u>\$104,988</u>	9.36	<u>9,836</u>
\$ 3,016	1.66	50	\$ 6,749	1.38	93	\$ 6,423	1.24	80
51,182	2.58	1,322	45,049	2.68	1,207	28,622	2.78	796
28,581	5.27	1,506	26,853	5.17	1,390	18,889	5.33	1,007
3,708	5.64	209	3,245	5.77	187	2,244	5.81	131
1,287	4.85	62	719	4.76	34	2,381	5.86	139
87,774	3.59	3,149	82,615	3.52	2,911	58,559	3.68	2,153
11,362	5.37	610	10,692	5.25	562	12,682	5.88	746
17,149	6.38	1,093	18,283	6.24	1,140	14,996	6.53	980
1,287	7.82	101	82	7.81	6	—	—	—
117,572	4.21	4,953	111,672	4.14	4,619	86,237	4.50	3,879
31,230	—	—	29,247	—	—	18,751	—	—
<u>\$148,802</u>	3.33	<u>4,953</u>	<u>\$140,919</u>	3.28	<u>4,619</u>	<u>\$104,988</u>	3.69	<u>3,879</u>
	<u>5.86%</u>	<u>\$ 8,705</u>		<u>5.87%</u>	<u>\$ 8,265</u>		<u>5.67%</u>	<u>\$5,957</u>
\$ 11,609			\$ 11,442			\$ 5,858		
8,186			6,477			895		
13,653			11,051			5,273		
<u>\$ 33,448</u>			<u>\$ 28,970</u>			<u>\$ 12,026</u>		
\$ 37,710			\$ 34,952			\$ 19,070		
7,243			5,466			3,246		
554			968			942		
19,171			16,831			7,519		
(31,230)			(29,247)			(18,751)		
<u>\$ 33,448</u>			<u>\$ 28,970</u>			<u>\$ 12,026</u>		
<u>\$182,250</u>			<u>\$169,889</u>			<u>\$117,014</u>		

(4) Interest income includes loan fees, net of deferred costs, of approximately \$177 million, \$120 million, \$103 million, \$86 million and \$40 million in 1999, 1998, 1997, 1996 and 1995, respectively.

(5) Nonaccrual loans and related income are included in their respective loan categories.

(6) Includes taxable-equivalent adjustments that primarily relate to income on certain loans and securities that is exempt from federal and applicable state income taxes. The federal statutory tax rate was 35% for all years presented.

The increase in mortgage banking was due to higher servicing revenue, including lower amortization of mortgage servicing rights, partially offset by a decrease in loan origination and closing fees. The decrease in amortization was largely due to rising interest rates, which decreased the prepayment speeds in the servicing portfolio.

A major portion of the increase in trust and investment fees for 1999 was due to an overall increase in mutual fund management fees, reflecting the growth in mutual fund assets and an increase in transaction fees associated with mutual funds and annuity sales. The Company managed mutual funds with \$60.0 billion of assets at December 31, 1999, compared with \$51.4 billion at December 31, 1998. The Company also managed or maintained personal trust, employee benefit trust and agency assets of approximately \$427.7 billion and \$366.9 billion at December 31, 1999 and 1998, respectively.

The increase in net venture capital gains was primarily due to a gain of about \$560 million that was recognized on the Company's venture capital investment in Cerent Corporation. Gains on sales of venture capital securities are generally dependent on the timing of holdings becoming publicly traded and subsequent market conditions, causing venture capital gains to be unpredictable in nature.

The net losses on securities available for sale in 1999 were due to the restructuring of the securities available for sale investment portfolio in the fourth quarter of 1999.

Net gains on dispositions of operations in 1999 were due to required divestitures of stores in Arizona and Nevada.

NONINTEREST EXPENSE

Table 5 shows the major components of noninterest expense.

TABLE 5: NONINTEREST EXPENSE

(in millions)	Year ended December 31,			% Change	
	1999	1998	1997	1999/1998	1998/1997
Salaries	\$3,053	\$ 3,103	\$2,712	(2)%	14 %
Incentive compensation	522	572	400	(9)	43
Employee benefits	821	741	699	11	6
Equipment	840	900	739	(7)	22
Net occupancy	764	764	719	—	6
Goodwill	447	421	433	6	(3)
Core deposit intangible:					
Nonqualifying ⁽¹⁾	179	217	240	(18)	(10)
Qualifying	20	26	33	(23)	(21)
Net (gains) losses on dispositions of premises and equipment	(16)	325	76	—	328
Contract services	465	342	271	36	26
Outside professional services	372	391	262	(5)	49
Outside data processing	279	250	217	12	15
Telecommunications	261	252	241	4	5
Travel and entertainment	249	212	188	17	13
Advertising and promotion	238	237	202	—	17
Postage	223	228	210	(2)	9
Stationery and supplies	171	178	182	(4)	(2)
Insurance	151	132	122	14	8
Operating losses	140	152	374	(8)	(59)
Security	88	84	87	5	(3)
All other	515	1,052	583	(51)	80
Total	<u>\$9,782</u>	<u>\$10,579</u>	<u>\$8,990</u>	<u>(8)%</u>	<u>18 %</u>

(1) Represents amortization of core deposit intangible acquired after February 1992 that is subtracted from stockholders' equity in computing regulatory capital for bank holding companies.

The net losses on dispositions of premises and equipment in 1998 were mostly due to Merger-related costs from the 1998 restructuring charge for the disposition of owned and leased premises.

A significant portion of the increase in contract services was due to expenses related to various Merger-related projects.

A significant portion of the decrease in the "All other" category of noninterest expense was due to the 1998 accrual of \$208 million of irrevocable commitments to the Company's Foundation in connection with the Merger.

During 1999, the Company completed its enterprise-wide project to prepare and maintain the Company's systems for Year 2000 compliance. The Year 2000 compliance issue pertains to computer systems that use two digits rather than four to define the applicable year and whether such systems would properly process information when the year changed to 2000. In addition, since the year 2000 is a leap year, some programs may not recognize and properly process "February 29, 2000". "Systems" include hardware, networks, in-house and commercial "off the shelf" software, and embedded technology such as date impacted processors in automated systems such as elevators, telephone systems, security systems, vault systems, heating and cooling systems and others.

The Company incurred approximately \$320 million in total costs for the Year 2000 project, including approximately \$118 million in 1999. The Company does not expect to incur additional significant charges for the Year 2000 project.

The Company experienced no significant Year 2000 issues as of January 18, 2000, and does not anticipate that significant Year 2000 issues will arise in the future associated with the year change or with the February 29, 2000 leap year event. However, it is too early to conclude that there will be no significant issues associated with the Year 2000, and that all of the Company's customers, vendors, counterparties and other third parties have effectively addressed their Year 2000 issues.

Year 2000 issues, if they do arise, could expose the Company to a number of risks, including the possibility that, to the extent certain third parties fail to adequately address Year 2000 issues, they may not be able to meet their contractual obligations to the Company. The forward-looking statements made in the foregoing Year 2000 discussion speak only as of the date on which such statements are made, and the Company undertakes no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events. The forward-looking statements in the foregoing Year 2000 discussion should be read with the cautionary statements included in the section, "Factors That May Affect Future Results".

EARNINGS/RATIOS EXCLUDING GOODWILL AND NONQUALIFYING CORE DEPOSIT INTANGIBLE

Table 6 reconciles reported earnings to net income excluding goodwill and nonqualifying core deposit intangible amortization ("cash" earnings) for the year ended December 31, 1999. Table 7 presents the calculation of the ROA, ROE and efficiency ratios excluding goodwill and nonqualifying core deposit intangible amortization and balances for the year ended December 31, 1999. These calculations were specifically formulated by the Company and may not be comparable to similarly titled measures reported by other companies. Also, "cash" earnings are not entirely available for use by management. See the Consolidated Statement of Cash Flows and Note 3 to Financial Statements for other information regarding funds available for use by management.

TABLE 6: EARNINGS EXCLUDING GOODWILL AND NONQUALIFYING CDI

(in millions, except per share amounts)	Year ended December 31, 1999			
	Reported earnings	Goodwill	Amortization Nonqualifying core deposit intangible	"Cash" earnings
Income before income tax expense	\$5,948	\$447	\$179	\$6,574
Income tax expense	<u>2,201</u>	<u>—</u>	<u>69</u>	<u>2,270</u>
Net income	3,747	447	110	4,304
Preferred stock dividends	<u>35</u>	<u>—</u>	<u>—</u>	<u>35</u>
Net income applicable to common stock	<u>\$3,712</u>	<u>\$447</u>	<u>\$110</u>	<u>\$4,269</u>
Earnings per common share	<u>\$ 2.26</u>	<u>\$.27</u>	<u>\$.06</u>	<u>\$ 2.59</u>
Diluted earnings per common share	<u>\$ 2.23</u>	<u>\$.27</u>	<u>\$.06</u>	<u>\$ 2.56</u>

TABLE 7: RATIOS EXCLUDING GOODWILL AND NONQUALIFYING CDI

(in millions)		Year ended December 31, 1999	
ROA:	A/(C-E-F) =	2.22%	
ROE:	B/(D-E-G) =	34.08%	
Efficiency:	(H-I)/J =	54.6%	
Net income		\$ 4,304	(A)
Net income applicable to common stock		4,269	(B)
Average total assets		202,623	(C)
Average common stockholders' equity		21,013	(D)
Average goodwill		7,666	(E)
Average pretax nonqualifying core deposit intangible		1,323	(F)
Average after-tax nonqualifying core deposit intangible		820	(G)
Noninterest expense		9,782	(H)
Amortization expense for goodwill and nonqualifying core deposit intangible		626	(I)
Net interest income plus noninterest income		16,775	(J)

BALANCE SHEET ANALYSIS

A comparison between the year-end 1999 and 1998 balance sheets is presented below.

SECURITIES AVAILABLE FOR SALE

Total securities available for sale averaged \$34.1 billion in 1999, a 21% increase from \$28.2 billion in 1998. Total securities available for sale were \$38.5 billion at December 31, 1999, a 20% increase from \$32.0 billion at December 31, 1998. The increase from 1998 was due to additional holdings of securities of U.S. Treasury and Federal agencies and marketable equity securities.

Table 8 provides the components of the estimated unrealized net gain on securities available for sale.

TABLE 8: ESTIMATED UNREALIZED GAINS AND LOSSES ON SECURITIES AVAILABLE FOR SALE

(in millions)	December 31,	
	1999	1998
Estimated unrealized gross gains	\$2,174	\$919
Estimated unrealized gross losses	<u>(885)</u>	<u>(89)</u>
Estimated unrealized net gain	<u>\$1,289</u>	<u>\$830</u>

The unrealized net loss of \$668 million in the debt securities portion of the securities available for sale portfolio at December 31, 1999 was attributable to an increase in market interest rates in 1999. The unrealized net gain of \$1,957 million in the marketable equity securities portion of the securities available for sale portfolio at December 31, 1999 was due to equity securities held within the Company's venture capital portfolio that benefited from favorable market conditions. The Company may decide to sell certain of the securities available for sale to manage the level of earning assets (for example, to offset loan growth that exceeds expected maturities and prepayments of securities). (See Note 4 to Financial Statements for securities available for sale by security type.)

The unrealized net gain on securities available for sale is reported on an after-tax basis as a component of cumulative other comprehensive income. At December 31, 1999, the unrealized net after-tax gain was \$902 million, compared with an unrealized net after-tax gain of \$477 million at December 31, 1998.

At December 31, 1999, mortgage-backed securities, including collateralized mortgage obligations (CMOs), were \$25.4 billion, or 66% of the Company's securities available for sale portfolio. As an indication of interest rate risk, the Company has estimated the effect of a 200 basis point increase in interest rates on the value of the mortgage-backed securities and the corresponding expected remaining maturities. Based on that rate scenario, mortgage-backed securities would decrease in fair value from \$25.4 billion to \$22.9 billion and the expected remaining maturity of these securities would increase from 7 years and 9 months to 9 years and 2 months.

LOAN PORTFOLIO

A comparative schedule of average loan balances is presented in Table 4; year-end balances are presented in Note 5 to Financial Statements.

Loans averaged \$111.4 billion in 1999, compared with \$106.2 billion in 1998, an increase of 5%. Total loans at December 31, 1999 were \$119.5 billion, compared with \$108.0 billion at year-end 1998, an increase of 11%. The Company's total unfunded loan commitments increased to \$74.6 billion at December 31, 1999, from \$71.5 billion at December 31, 1998.

Real estate 1-4 family junior lien mortgage loans grew 16% to \$12.9 billion at December 31, 1999, from \$11.1 billion at December 31, 1998.

NONACCRUAL AND RESTRUCTURED LOANS AND OTHER ASSETS

Table 9, below, presents comparative data for nonaccrual and restructured loans and other assets. Management's classification of a loan as nonaccrual or restructured does not necessarily indicate that the principal of the loan is uncollectible in whole or in part. Table 9 excludes loans that are contractually past due 90 days or more as to interest or principal, but are both well-secured and in the process of collection or are real estate 1-4 family first mortgage loans or consumer loans that are exempt under regulatory rules from being classified as nonaccrual. This information is presented in Table 10. Notwithstanding, real estate 1-4 family loans (first and junior liens) are placed on nonaccrual within 120 days of becoming past due and are shown in Table 9. (Note 1 to Financial Statements describes the Company's accounting policy relating to nonaccrual and restructured loans.)

TABLE 9: NONACCRUAL AND RESTRUCTURED LOANS AND OTHER ASSETS

(in millions)	December 31,				
	1999	1998	1997	1996	1995
Nonaccrual loans:					
Commercial ⁽¹⁾	\$344	\$282	\$209	\$ 280	\$179
Real estate 1-4 family first mortgage	127	124	164	142	110
Other real estate mortgage ⁽²⁾	112	199	259	381	342
Real estate construction	7	17	27	30	48
Consumer:					
Real estate 1-4 family junior lien mortgage	17	17	17	15	8
Other revolving credit and monthly payment	27	41	18	5	6
Total consumer	44	58	35	20	14
Lease financing	22	12	12	18	12
Foreign	9	17	—	—	—
Total nonaccrual loans ⁽³⁾	665	709	706	871	705
Restructured loans ⁽⁴⁾	4	1	9	10	16
Nonaccrual and restructured loans	669	710	715	881	721
As a percentage of total loans	.6%	.7%	.7%	.8%	1.0%
Foreclosed assets	153	148	208	262	223
Real estate investments ⁽⁵⁾	33	1	4	4	12
Total nonaccrual and restructured loans and other assets	<u>\$855</u>	<u>\$859</u>	<u>\$927</u>	<u>\$1,147</u>	<u>\$956</u>

(1) Includes commercial agricultural loans of \$40 million, \$32 million, \$24 million, \$25 million and \$13 million at December 31, 1999, 1998, 1997, 1996 and 1995, respectively.

(2) Includes agricultural loans secured by real estate of \$16 million, \$12 million, \$18 million, \$13 million and \$5 million at December 31, 1999, 1998, 1997, 1996 and 1995, respectively.

(3) Of the total nonaccrual loans, \$358 million, \$388 million, \$411 million, \$587 million and \$508 million at December 31, 1999, 1998, 1997, 1996 and 1995, respectively, were considered impaired under FAS 114, *Accounting by Creditors for Impairment of a Loan*.

(4) In addition to originated loans that were subsequently restructured, there were loans of \$50 million at December 31, 1995 that were purchased at a steep discount whose contractual terms were modified after acquisition. Those loans were restructured to yield a rate that was equal to or greater than the rate charged for new loans with comparable risk and thus were not required to be reported as impaired in the year following the restructuring. Those loans were not impaired based on the terms specified by the restructuring agreement.

(5) Represents the amount of real estate investments (contingent interest loans accounted for as investments) that would be classified as nonaccrual if such assets were recorded as loans. Real estate investments totaled \$89 million, \$128 million, \$172 million, \$154 million and \$96 million at December 31, 1999, 1998, 1997, 1996 and 1995, respectively.

The Company anticipates changes in the amount of nonaccrual loans that result from increases in lending activity or from resolutions of loans in the nonaccrual portfolio. The performance of any individual loan can be affected by external factors, such as the interest rate environment or factors particular to a borrower such as actions taken by a borrower's management. In addition, from time to time, the Company purchases loans from other financial institutions that may be classified as nonaccrual based on the Company's policies.

The Company generally identifies loans to be evaluated for impairment under FASB Statement No. 114, *Accounting by Creditors for Impairment of a Loan*, when such loans are on nonaccrual or have been restructured. However, not all nonaccrual loans are impaired. Generally, a loan is placed on nonaccrual status upon becoming 90 days past due as to interest or principal (unless both well-secured and in the process of collection), when the full timely collection of interest or principal becomes uncertain or when a portion of the principal balance has been charged off. Real estate 1-4 family loans (both first liens and junior liens) are placed on nonaccrual status within 120 days of becoming past due as to interest or principal, regardless of security. In contrast, under FAS 114, loans are considered impaired when it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement, including scheduled interest payments. For a loan that has been restructured, the contractual terms of the loan agreement refer to the contractual terms specified by the original loan agreement, rather than the contractual terms specified by the restructuring agreement. Consequently, not all impaired loans are necessarily placed on nonaccrual status. That is, loans performing under restructured terms beyond a specified performance period are classified as accruing but may still be deemed impaired under FAS 114.

For loans covered under FAS 114, the Company makes an assessment for impairment when and while such loans are on nonaccrual, or when the loan has been restructured. When a loan with unique risk characteristics has been identified as being impaired, the Company will estimate the amount of impairment using discounted cash flows, except when the sole (remaining) source of repayment for the loan is the operation or liquidation of the underlying collateral. In such cases, the current fair value of the collateral, reduced by costs to sell, will be used in place of discounted cash flows. Additionally, some impaired loans with commitments of less than \$1 million are aggregated for the purpose of estimating impairment using historical loss factors as a means of measurement.

If the measurement of the impaired loan results in a value that is less than the recorded investment in the loan (including accrued interest, net deferred loan fees or costs and unamortized premium or discount), an impairment is recognized by creating or adjusting an existing allocation of the allowance for loan losses. FAS 114 does not change the timing of charge-offs of loans to reflect the amount ultimately expected to be collected.

If interest that was due on the book balances of all nonaccrual and restructured loans (including loans that were but are no longer on nonaccrual or were restructured at year end) had been accrued under their original terms, \$56 million of interest would have been recorded in 1999, compared with \$17 million actually recorded.

Foreclosed assets at December 31, 1999 were \$153 million, compared with \$148 million at December 31, 1998. Substantially all of the foreclosed assets at December 31, 1999 have been in the portfolio three years or less.

LOANS 90 DAYS OR MORE PAST DUE AND STILL ACCRUING

Table 10 shows loans that are contractually past due 90 days or more as to interest or principal, but are not included in Table 9, Nonaccrual and Restructured Loans and Other Assets.

**TABLE 10: LOANS 90 DAYS OR MORE PAST DUE
AND STILL ACCRUING**

(in millions)	December 31,				
	1999	1998	1997	1996	1995
Commercial	\$ 24	\$ 29	\$ 34	\$ 83	\$ 20
Real estate					
1-4 family					
first mortgage	39	40	54	53	12
Other real estate					
mortgage	15	17	16	67	28
Real estate					
construction	4	6	13	10	3
Consumer: ⁽¹⁾					
Real estate					
1-4 family junior					
lien mortgage	35	64	74	55	30
Credit card	99	140	160	146	120
Other revolving					
credit and					
monthly					
payment	185	160	206	180	150
Total consumer	319	364	440	381	300
Total	\$401	\$456	\$557	\$594	\$363

(1) Consumer loans at December 31, 1998, 1997, 1996 and 1995 have been revised to include Norwest Financial loans of \$114 million, \$160 million, \$150 million and \$127 million, respectively.

ALLOWANCE FOR LOAN LOSSES

An analysis of the changes in the allowance for loan losses, including charge-offs and recoveries by loan category, is presented in Note 5 to Financial Statements. At December 31, 1999, the allowance for loan losses was \$3,170 million, or 2.65% of total loans, compared with \$3,134 million, or 2.90%, at December 31, 1998 and \$3,062 million, or 2.88%, at December 31, 1997. The provision for loan losses totaled \$1,045 million in 1999, \$1,545 million in 1998 and \$1,140 million in 1997. The provision for loan losses in 1999 approximated net charge-offs, and the Company anticipates that it will continue to make a provision in 2000 that will approximate the level of actual net charge-offs. Net charge-offs in 1999 were \$1,049 million, or .94% of average total loans, compared with \$1,617 million, or 1.52%, in 1998 and \$1,305 million, or 1.25%, in 1997. Loan loss recoveries were \$436 million in 1999, compared with \$427 million in 1998 and \$426 million in 1997.

Any loan that is past due as to principal or interest and that is not both well-secured and in the process of collection is generally charged off (to the extent that it exceeds the fair value of any related collateral) after a predetermined period of time that is based on loan category. Additionally, loans are charged off when classified as a loss by either internal loan examiners or regulatory examiners.

The Company considers the allowance for loan losses of \$3,170 million adequate to cover losses inherent in loans, commitments to extend credit and standby and other letters of credit at December 31, 1999. However, no assurance can be given that the Company will not, in any particular period, sustain loan losses that are sizable in relation to the amount reserved, or that subsequent evaluations of the loan portfolio, in light of the factors then prevailing, including economic conditions and the ongoing examination process by the Company and its regulators, will not require significant increases in the allowance for loan losses. For discussion of the process by which the Company determines the adequacy of the allowance for loan losses, see Note 5 to Financial Statements.

DEPOSITS

Comparative detail of average deposit balances is presented in Table 4. Average core deposits funded 63% and 66% of the Company's average total assets in 1999 and 1998, respectively. Year-end deposit balances are presented in Table 11.

TABLE 11: DEPOSITS

(in millions)	December 31,		% Change
	1999	1998	
Noninterest-bearing	\$ 42,916	\$ 46,732	(8)%
Interest-bearing checking	3,083	2,908	6
Market rate and			
other savings	55,791	55,152	1
Savings certificates	24,408	27,497	(11)
Core deposits	126,198	132,289	(5)
Other time deposits	3,255	3,753	(13)
Deposits in foreign offices	3,255	746	336
Total deposits	\$132,708	\$136,788	(3)%

MARKET RISK

Market risk is the exposure to loss resulting from changes in interest rates, foreign currency exchange rates, commodity prices and equity prices. The primary market risk to which the Company is exposed is interest rate risk. The majority of the Company's interest rate risk arises from the instruments, positions and transactions entered into for purposes other than trading. They include loans, securities available for sale, deposit liabilities, short-term borrowings, long-term debt and derivative financial instruments used for asset/liability management. Interest rate risk occurs when assets and liabilities reprice at different times as market interest rates change. For example, if fixed-rate assets are funded with floating-rate debt, the spread between asset and liability rates will decline or turn negative if rates increase. The Company refers to this type of risk as "term structure risk". There is, however, another source of interest rate risk which results from changing spreads between asset and liability rates. The Company calls this type of risk "basis risk"; it is a significant source of interest rate risk for the Company and is more difficult to quantify and manage than term structure risk. Two primary components of basis risk for the Company are (1) the spread between prime-based loans and market rate account (MRA) savings deposits and (2) the rate paid on savings and interest-bearing checking accounts as compared to LIBOR-based loans.

Interest rate risk is managed within an overall asset/liability framework for the Company. The principal objectives of asset/liability management are to manage the sensitivity of net interest spreads and net income to potential changes in interest rates and to enhance profitability in ways that promise sufficient reward for understood and controlled risk. Funding positions are kept within predetermined limits designed to ensure that risk-taking is not excessive and that liquidity is properly managed. The Company employs a sensitivity analysis in the form of a net interest income simulation to help characterize the market risk arising from changes in interest rates in the other-than-trading portfolio.

The Company's net interest income simulation includes all other-than-trading financial assets, financial liabilities, derivative financial instruments and leases where the Company is the lessor. It captures the dynamic nature of the balance sheet by anticipating probable balance sheet and off-balance sheet

strategies and volumes under different interest rate scenarios over the course of a one-year period. This simulation measures both the term structure risk and the basis risk in the Company's positions. The simulation also captures the option characteristics of products, such as caps and floors on floating-rate loans, the right to prepay mortgage loans without penalty and the ability of customers to withdraw deposits on demand. These options are modeled directly in the simulation either through the use of option pricing models, in the case of caps and floors on loans, or through statistical analysis of historical customer behavior, in the case of mortgage loan prepayments or non-maturity deposits.

The simulation model is used to measure the impact on net income, relative to a base case scenario, of interest rates increasing or decreasing 100 basis points over the next 12 months. The simulation showing the largest drop in net income relative to the base case scenario over the next twelve months is a 100 basis point increase in rates that will result in a decrease in net income of \$38 million. In the simulation that was run at December 31, 1998, the largest drop in net income relative to the base case scenario over the next twelve months was a 100 basis point increase in rates that was projected to result in a decrease in net income of \$26 million.

The Company uses interest rate derivative financial instruments as an asset/liability management tool to hedge mismatches in interest rate exposures indicated by the net income simulation described above. They are used to reduce the Company's exposure to interest rate fluctuations and provide more stable spreads between loan yields and the rates on their funding sources. For example, the Company uses interest rate futures to shorten the rate maturity of MRA savings deposits and better match the maturity of prime-based loans. The Company also purchases interest rate floors to protect against the loss in interest income on LIBOR-based loans during a declining interest rate environment. Additionally, receive-fixed rate swaps are used to convert floating-rate loans into fixed rates to better match the liabilities that fund the loans. The Company also uses derivatives including floors, futures contracts and options on futures contracts to hedge the Company's mortgage servicing rights as well as forwards, futures and options on futures and forwards to hedge the Company's 1-4 family real estate first mortgage loan commitments and mortgage loans held for sale.

Looking toward managing interest rate risk in 2000, the Company will continue to face term structure risk and basis risk and may be confronted with several risk scenarios. If interest rates rise, net income may actually increase if deposit rates lag increases in market rates (e.g., prime, LIBOR). The Company could, however, experience downward pressure on net income in that scenario if deposits are aggressively repriced as market rates increase.

A declining interest rate environment might result in a decrease in loan rates, while deposit rates remain relatively stable, as they did between 1994 and 1996. This rate scenario could also create significant risk to net income. The Company has partially hedged against that risk with interest rate floors, receive-fixed rate swap contracts and fixed-rate mortgage backed securities. As mentioned above, the Company has also partially hedged its mortgage servicing rights against that rate scenario using primarily floors, futures contracts and options on futures contracts. Based on its current and projected balance sheet, the Company does not expect that a change in interest rates would significantly affect its liquidity position.

The Company considers the fair values and the potential near term losses to future earnings related to its customer accommodation derivative financial instruments to be immaterial.

DERIVATIVE FINANCIAL INSTRUMENTS

The Company uses interest rate derivative financial instruments as asset/liability management tools to hedge the Company's exposure to interest rate fluctuations. The Company also offers contracts to accommodate its customers, but hedges such contracts by purchasing other financial contracts or uses the contracts for asset/liability management. Table 12 reconciles the beginning and ending notional or contractual amounts of derivative financial instruments used for asset/liability management purposes for 1999 and shows the expected remaining maturity at year-end 1999. For a further discussion of derivative financial instruments, refer to Note 23 to Financial Statements.

TABLE 12: DERIVATIVE ACTIVITIES

(in millions)						Year ended December 31, 1999	
	Beginning balance	Additions	Amortization and maturities	Terminations	Ending balance	Weighted average expected remaining maturity (in yrs.-mos.)	
Interest rate contracts:							
Swaps	\$24,429	\$ 13,594	\$ 5,087	\$ 1,366	\$31,570		2-10
Futures	62,348	98,611	23,119	87,115	50,725		3-6
Floors and caps	33,598	18,554	9,010	2,000	41,142		3-0
Options	25,822	155,380	58,287	110,975	11,940		0-11
Forwards	41,283	485,677	—	504,432	22,528		0-1
Foreign exchange contracts:							
Forwards	168	552	582	—	138		0-3

Net deferred losses related to interest rate futures contracts were \$310 million at December 31, 1999, most of which will be fully amortized within seven years. Net deferred losses on terminated derivative financial instruments were \$210 million at December 31, 1999, compared with net deferred gains of \$412 million at December 31, 1998.

LIQUIDITY AND CAPITAL MANAGEMENT

The Company manages its liquidity and capital at both the parent and subsidiary levels.

In addition to the immediately liquid resources of cash and due from banks and federal funds sold and securities purchased under resale agreements, asset liquidity is provided

by the Company's securities available for sale portfolio. The weighted average expected remaining maturity of the debt securities within this portfolio was 8 years and 2 months at December 31, 1999. Of the \$35.2 billion of debt securities in this portfolio at December 31, 1999, \$4.7 billion, or 13%, is expected to mature or be prepaid in 2000 and an additional \$3.0 billion, or 9%, is expected to mature or be prepaid in 2001. Asset liquidity is further enhanced by the Company's ability to securitize assets such as mortgage loans.

Core deposits have historically provided the Company with a sizeable source of relatively stable and low-cost funds. The Company's average core deposits and stockholders' equity funded 73% and 76% of its average total assets in 1999 and 1998, respectively.

The remaining funding of average total assets was mostly provided by long-term debt, deposits in foreign offices, short-term borrowings (federal funds purchased and securities sold under repurchase agreements, commercial paper and other short-term borrowings) and trust preferred securities. Short-term borrowings averaged \$18.4 billion and \$14.4 billion in 1999 and 1998, respectively. Long-term debt averaged \$21.7 billion and \$17.4 billion in 1999 and 1998, respectively. Trust preferred securities averaged \$.8 billion and \$1.0 billion in 1999 and 1998, respectively.

Liquidity for the Company is provided by interest income, deposit-raising activities, potential disposition of readily marketable assets and through its ability to raise funds in a variety of domestic and international money and capital markets. The Company accesses the capital markets for long-term funding through the issuance of registered debt.

In June 1999, the Parent filed a shelf registration statement with the SEC under which the Company may issue up to \$10 billion in debt and equity securities, excluding common stock, except for common stock issuable upon the exercise or conversion of debt and equity securities. That registration statement, together with the \$150 million issuance authority remaining on the Company's registration statements filed in 1993 and 1995, permits the Company to issue an aggregate of \$10.15 billion in such debt and equity securities. Under those registration statements, the Company had issued a total of \$3 billion in debt securities as of December 31, 1999 and had established a program to issue, from time to time, additional debt securities in the form of Medium-Term Notes, Series A and Subordinated Medium-Term Notes, Series B in the aggregate principal amount of up to \$7.15 billion. Proceeds from the issuance of the debt securities listed above were, and with respect to any such securities issued in the future, are expected to be used for general corporate purposes.

In April 1999, Norwest Financial, Inc. (NFI) filed a shelf registration statement with the SEC, under which NFI may issue up to \$2 billion in senior or subordinated debt securities. As of December 31, 1999, NFI had issued a total of \$1.1 billion in debt securities under that registration statement. Also in 1999, a subsidiary of NFI filed a shelf registration statement with the Canadian provincial securities authorities for the issuance of up to \$1 billion (Canadian) in debt securities, and had issued \$390 million (Canadian) in debt securities from that registration statement as of December 31, 1999.

To accommodate future growth and current business needs, the Company has a capital expenditure program. Capital expenditures for 2000 are estimated to be approximately \$500 million for equipment for stores, relocation and remodeling of Company facilities and routine replacement of furniture and equipment. The Company will fund these expenditures from various sources, including retained earnings of the Company and borrowings of various maturities.

The Company and each of the subsidiary banks are subject to various regulatory capital adequacy requirements administered by the Federal Reserve Board and the Office of the Comptroller of the Currency. RBC guidelines establish a risk-adjusted ratio relating capital to different categories of assets and off-balance sheet exposures. (See Note 22 to Financial Statements for additional information.)

The Company repurchases common shares in the open market under a systematic plan to meet the common stock issuance requirements of the Company's benefit plans and for other common stock issuance requirements, including acquisitions accounted for as purchases. In February of 2000, the Board of Directors authorized the repurchase of up to 81 million additional shares of the Company's outstanding common stock. At the time of that authorization, approximately 35 million shares remained to be purchased under the September 1999 common stock purchase authority, substantially all of which are expected to be acquired for announced acquisitions.

COMPARISON OF 1998 TO 1997

Net interest income increased \$342 million in 1998 compared to 1997. The increase in net interest income was due to an increase in earning assets, which included the effects of a significantly higher volume of mortgage origination activity during 1998.

Net income in 1998 was \$1,950 million, compared with \$2,499 million in 1997, a decrease of 22%. Diluted earnings per common share were \$1.17 in 1998, compared with \$1.48 in 1997, a decrease of 21%. ROA was 1.04% and ROE was 9.86% in 1998, compared with 1.37% and 12.81%, respectively, in 1997.

Diluted earnings before the amortization of goodwill and CDI ("cash" earnings) were \$1.50 per share in 1998, compared with \$1.83 in 1997. On the same basis, ROA was 1.39% and ROE was 23.15% in 1998, compared with 1.78% and 30.49%, respectively, in 1997.

Net interest income on a taxable-equivalent basis was \$9,049 million in 1998, compared with \$8,705 million in 1997. The Company's net interest margin was 5.79% for 1998, compared with 5.86% in 1997.

Noninterest income in 1998 was \$6,427 million, compared with \$5,675 million in 1997, an increase of 13%. The increase in noninterest income was primarily due to higher fee-based revenues and increased earnings from mortgage banking activities.

Noninterest expense in 1998 was \$10,579 million, compared with \$8,990 million in 1997. The increase was due to Merger-related charges recorded in the fourth quarter of 1998.

The provision for loan losses was \$1,545 million in 1998, compared with \$1,140 million in 1997. Net charge-offs in 1998 were \$1,617 million, or 1.52% of average total loans, compared with \$1,305 million, or 1.25%, in 1997. The allowance for loan losses was 2.90% of total loans at December 31, 1998, compared with 2.88% at December 31, 1997.

Total nonaccrual and restructured loans were \$710 million, or .7% of total loans, at December 31, 1998, compared with \$715 million, or .7%, at December 31, 1997. Foreclosed assets were \$148 million at December 31, 1998, compared with \$208 million at December 31, 1997.

ADDITIONAL INFORMATION

Common stock of the Company is traded on the New York Stock Exchange and the Chicago Stock Exchange. The high, low and end-of-period annual and quarterly prices of the Company's common stock as reported on the New York

Stock Exchange Composite Transaction Reporting System are presented in the graphs. The number of holders of record of the Company's common stock was 90,277 as of January 31, 2000.

PRICE RANGE OF COMMON STOCK-ANNUAL (\$)



PRICE RANGE OF COMMON STOCK-QUARTERLY (\$)



CONSOLIDATED STATEMENT OF INCOME

(in millions, except per share amounts)

	Year ended December 31,		
	1999	1998	1997
INTEREST INCOME			
Securities available for sale	\$ 2,176	\$ 1,844	\$ 2,063
Mortgages held for sale	853	898	490
Loans held for sale	372	371	312
Loans	10,761	10,685	10,539
Other interest income	213	257	198
Total interest income	<u>14,375</u>	<u>14,055</u>	<u>13,602</u>
INTEREST EXPENSE			
Deposits	2,757	3,111	3,150
Short-term borrowings	924	777	610
Long-term debt	1,279	1,097	1,093
Guaranteed preferred beneficial interests in Company's subordinated debentures	60	80	101
Total interest expense	<u>5,020</u>	<u>5,065</u>	<u>4,954</u>
NET INTEREST INCOME	9,355	8,990	8,648
Provision for loan losses	<u>1,045</u>	<u>1,545</u>	<u>1,140</u>
Net interest income after provision for loan losses	<u>8,310</u>	<u>7,445</u>	<u>7,508</u>
NONINTEREST INCOME			
Service charges on deposit accounts	1,492	1,357	1,244
Trust and investment fees	1,256	1,068	954
Credit card fees	538	520	448
Other fees	1,030	946	826
Mortgage banking	1,239	1,106	927
Insurance	383	348	336
Net venture capital gains	1,008	113	191
Net (losses) gains on securities available for sale	(241)	169	99
Other	715	800	650
Total noninterest income	<u>7,420</u>	<u>6,427</u>	<u>5,675</u>
NONINTEREST EXPENSE			
Salaries	3,053	3,103	2,712
Incentive compensation	522	572	400
Employee benefits	821	741	699
Equipment	840	900	739
Net occupancy	764	764	719
Goodwill	447	421	433
Core deposit intangible	199	243	273
Net (gains) losses on dispositions of premises and equipment	(16)	325	76
Other	<u>3,152</u>	<u>3,510</u>	<u>2,939</u>
Total noninterest expense	<u>9,782</u>	<u>10,579</u>	<u>8,990</u>
INCOME BEFORE INCOME TAX EXPENSE	5,948	3,293	4,193
Income tax expense	<u>2,201</u>	<u>1,343</u>	<u>1,694</u>
NET INCOME	<u>\$ 3,747</u>	<u>\$ 1,950</u>	<u>\$ 2,499</u>
NET INCOME APPLICABLE TO COMMON STOCK	<u>\$ 3,712</u>	<u>\$ 1,915</u>	<u>\$ 2,456</u>
EARNINGS PER COMMON SHARE	<u>\$ 2.26</u>	<u>\$ 1.18</u>	<u>\$ 1.50</u>
DILUTED EARNINGS PER COMMON SHARE	<u>\$ 2.23</u>	<u>\$ 1.17</u>	<u>\$ 1.48</u>
DIVIDENDS DECLARED PER COMMON SHARE	<u>\$.785</u>	<u>\$.70</u>	<u>\$.615</u>
Average common shares outstanding	<u>1,645.6</u>	<u>1,621.5</u>	<u>1,634.6</u>
Diluted average common shares outstanding	<u>1,665.2</u>	<u>1,641.8</u>	<u>1,657.8</u>

The accompanying notes are an integral part of these statements.

CONSOLIDATED BALANCE SHEET

(in millions, except shares)

	December 31,	
	1999	1998
ASSETS		
Cash and due from banks	\$ 13,250	\$ 12,731
Federal funds sold and securities purchased under resale agreements	1,554	1,517
Securities available for sale	38,518	31,997
Mortgages held for sale	11,707	19,770
Loans held for sale	4,975	5,322
Loans	119,464	107,994
Allowance for loan losses	<u>3,170</u>	<u>3,134</u>
Net loans	<u>116,294</u>	<u>104,860</u>
Mortgage servicing rights	4,483	3,080
Premises and equipment, net	2,985	3,130
Core deposit intangible	1,286	1,510
Goodwill	7,702	7,664
Interest receivable and other assets	<u>15,348</u>	<u>10,894</u>
Total assets	<u>\$218,102</u>	<u>\$202,475</u>
LIABILITIES		
Noninterest-bearing deposits	\$ 42,916	\$ 46,732
Interest-bearing deposits	<u>89,792</u>	<u>90,056</u>
Total deposits	132,708	136,788
Short-term borrowings	27,995	15,897
Accrued expenses and other liabilities	11,108	8,537
Long-term debt	23,375	19,709
Guaranteed preferred beneficial interests in Company's subordinated debentures	785	785
STOCKHOLDERS' EQUITY		
Preferred stock	344	547
Unearned ESOP shares	<u>(73)</u>	<u>(84)</u>
Total preferred stock	271	463
Common stock—\$1½ par value, authorized 4,000,000,000 shares; issued 1,666,095,265 shares and 1,661,392,590 shares	2,777	2,769
Additional paid-in capital	8,786	8,673
Retained earnings	11,196	9,045
Cumulative other comprehensive income	892	463
Notes receivable from ESOP	(1)	(3)
Treasury stock — 39,245,724 shares and 17,334,787 shares	<u>(1,790)</u>	<u>(651)</u>
Total stockholders' equity	<u>22,131</u>	<u>20,759</u>
Total liabilities and stockholders' equity	<u>\$218,102</u>	<u>\$202,475</u>

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME

(in millions, except shares)

	Number of shares	Preferred stock	Unearned ESOP shares	Common stock	Additional paid-in capital	Retained earnings	Notes receivable from ESOP	Treasury stock	Cumulative other comprehensive income	Total stock- holders' equity
BALANCE DECEMBER 31, 1996		<u>\$850</u>	<u>\$(61)</u>	<u>\$2,149</u>	<u>\$10,170</u>	<u>\$ 6,871</u>	<u>\$(11)</u>	<u>\$ (233)</u>	<u>\$316</u>	<u>\$20,051</u>
Comprehensive income										
Net income-1997						2,499				2,499
Other comprehensive income, net of tax:										
Translation adjustments									1	1
Net unrealized gains (losses) on securities available for sale arising during the year									206	206
Reclassification of net (gains) losses on securities available for sale included in net income									(59)	(59)
Total comprehensive income										2,647
Common stock issued	18,793,327			10	155	(151)		282		296
Common stock issued for acquisitions	23,835,535			21	20	41		131		213
Preferred stock repurchased	1,100,000	(325)								(325)
Common stock repurchased	74,627,681			(97)	(1,591)	2		(483)		(2,171)
Preferred stock issued to ESOP	51,700	52	(54)		2					—
Preferred stock released to ESOP			35		(1)					34
Preferred stock (34,074) converted to common shares	1,212,871	(34)			6			28		—
Preferred stock dividends						(43)				(43)
Common stock dividends						(925)				(925)
Cash payments received on notes receivable from ESOP							1			1
Stock split				635	(635)					—
Net change		<u>(307)</u>	<u>(19)</u>	<u>569</u>	<u>(2,044)</u>	<u>1,421</u>	<u>—1</u>	<u>(42)</u>	<u>148</u>	<u>(273)</u>
BALANCE DECEMBER 31, 1997		<u>543</u>	<u>(80)</u>	<u>2,718</u>	<u>8,126</u>	<u>8,292</u>	<u>(10)</u>	<u>(275)</u>	<u>464</u>	<u>19,778</u>
Comprehensive income										
Net income-1998						1,950				1,950
Other comprehensive income, net of tax:										
Translation adjustments									(4)	(4)
Net unrealized gains (losses) on securities available for sale arising during the year									104	104
Reclassification of net (gains) losses on securities available for sale included in net income									(101)	(101)
Total comprehensive income										1,949
Common stock issued	39,048,384			49	910	(191)		319		1,087
Common stock issued for acquisitions	16,743,233			24	38	11		84		157
Common stock repurchased	32,676,277			(22)	(407)	2		(741)		(1,170)
Preferred stock issued to ESOP		35	(37)		2					—
Preferred stock released to ESOP			33		(1)					32
Preferred stock (31,043) converted to common shares	799,216	(31)			3			28		—
Preferred stock dividends						(35)				(35)
Common stock dividends						(982)				(982)
Cash payments received on notes receivable from ESOP					2		7			9
Increase in Rabbi trust assets (classified as treasury stock)								(66)		(66)
Net change		<u>4</u>	<u>(4)</u>	<u>51</u>	<u>547</u>	<u>753</u>	<u>7</u>	<u>(376)</u>	<u>(1)</u>	<u>981</u>
BALANCE DECEMBER 31, 1998		<u>547</u>	<u>(84)</u>	<u>2,769</u>	<u>8,673</u>	<u>9,045</u>	<u>(3)</u>	<u>(651)</u>	<u>463</u>	<u>20,759</u>
Comprehensive income										
Net income-1999						3,747				3,747
Other comprehensive income, net of tax:										
Translation adjustments									4	4
Net unrealized gains (losses) on securities available for sale arising during the year									276	276
Reclassification of net (gains) losses on securities available for sale included in net income									149	149
Total comprehensive income										4,176
Common stock issued	21,279,905				101	(270)		781		612
Common stock issued for acquisitions	8,040,491			8	12	2		133		155
Common stock repurchased	48,720,466							(2,122)		(2,122)
Preferred stock redeemed		(191)								(191)
Preferred stock issued to ESOP		75	(80)		5					—
Preferred stock released to ESOP			91		(5)					86
Preferred stock (86,141) converted to common shares	2,191,808	(87)						87		—
Preferred stock dividends						(35)				(35)
Common stock dividends						(1,293)				(1,293)
Cash payments received on notes receivable from ESOP							2			2
Increase in Rabbi trust assets (classified as treasury stock)								(18)		(18)
Net change		<u>(203)</u>	<u>11</u>	<u>8</u>	<u>113</u>	<u>2,151</u>	<u>2</u>	<u>(1,139)</u>	<u>429</u>	<u>1,372</u>
BALANCE DECEMBER 31, 1999		<u>\$ 344</u>	<u>\$(73)</u>	<u>\$2,777</u>	<u>\$ 8,786</u>	<u>\$11,196</u>	<u>\$(1)</u>	<u>\$(1,790)</u>	<u>\$892</u>	<u>\$22,131</u>

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

(in millions)	Year ended December 31,		
	1999	1998	1997
Cash flows from operating activities:			
Net income	\$ 3,747	\$ 1,950	\$ 2,499
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	1,045	1,545	1,140
Depreciation and amortization	1,893	2,168	1,734
Securities available for sale losses (gains)	241	(169)	(99)
Gains on sales of mortgages held for sale	(221)	(296)	(120)
Gains on sales of loans	(32)	(61)	(30)
Gains on disposition of operations	(107)	(100)	(15)
Release of preferred shares to ESOP	86	32	34
Net (increase) decrease in trading assets	(775)	542	(711)
Deferred income tax expense (benefit)	1,506	(129)	173
Net (increase) decrease in accrued interest receivable	(107)	(5)	96
Net (decrease) increase in accrued interest payable	(35)	(9)	43
Originations of mortgages held for sale	(82,846)	(111,262)	(56,297)
Proceeds from sales of mortgages held for sale	91,146	101,371	53,252
Net increase in loans held for sale	(874)	(822)	(846)
Other assets, net	(2,531)	424	1,746
Other accrued expenses and liabilities, net	1,314	624	(120)
Net cash provided (used) by operating activities	13,450	(4,197)	2,479
Cash flows from investing activities:			
Securities available for sale:			
Proceeds from sales	14,033	11,073	9,798
Proceeds from prepayments and maturities	7,464	10,354	6,998
Purchases	(26,547)	(24,650)	(13,140)
Net cash paid for acquisitions	(95)	(286)	(67)
Net (increase) decrease in banking subsidiaries' loans resulting from originations and collections	(6,707)	(1,383)	843
Proceeds from sales (including participations) of banking subsidiaries' loans	1,908	1,648	437
Purchases (including participations) of banking subsidiaries' loans	(1,246)	(135)	(314)
Principal collected on nonbank subsidiaries' loans	4,844	7,788	8,456
Nonbank subsidiaries' loans originated	(9,002)	(8,962)	(8,748)
Cash (paid for) proceeds from dispositions of operations	(731)	484	16
Proceeds from sales of foreclosed assets	234	279	278
Net (increase) decrease in federal funds sold and securities purchased under resale agreements	(37)	(468)	415
Net increase in mortgage servicing rights	(2,094)	(913)	(627)
Other, net	(2,274)	(2,826)	(221)
Net cash (used) provided by investing activities	(20,250)	(7,997)	4,124
Cash flows from financing activities:			
Net (decrease) increase in deposits	(5,124)	6,749	(7,273)
Net increase in short-term borrowings	11,952	2,414	2,838
Proceeds from issuance of long-term debt	11,957	7,970	4,003
Repayment of long-term debt	(8,309)	(5,642)	(5,394)
Proceeds from issuance of guaranteed preferred beneficial interests in Company's subordinated debentures	—	—	149
Proceeds from issuance of common stock	517	1,087	238
Redemption of preferred stock	(191)	—	(325)
Repurchases of common stock	(2,122)	(1,170)	(2,171)
Net decrease in notes receivable from ESOP	2	9	1
Payment of cash dividends on preferred and common stock	(1,328)	(1,017)	(968)
Other, net	(35)	1,444	(1,213)
Net cash provided (used) by financing activities	7,319	11,844	(10,115)
Net change in cash and due from banks	519	(350)	(3,512)
Cash and due from banks at beginning of year	12,731	13,081	16,593
Cash and due from banks at end of year	<u>\$ 13,250</u>	<u>\$ 12,731</u>	<u>\$ 13,081</u>
Supplemental disclosures of cash flow information:			
Cash paid during the year for:			
Interest	\$ 5,055	\$ 5,074	\$ 4,911
Income taxes	\$ 1,005	\$ 1,289	\$ 1,238
Noncash investing and financing activities:			
Transfers from loans to foreclosed assets	\$ 220	\$ 223	\$ 162

The accompanying notes are an integral part of these statements.

NOTE 1

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Wells Fargo & Company (Parent) is a bank holding company. Wells Fargo & Company and Subsidiaries (Company) is a diversified financial services company providing banking, mortgage and consumer finance through about 5,300 stores, the Internet and other distribution channels throughout North America, including all 50 states, and elsewhere internationally.

The accounting and reporting policies of the Company conform with generally accepted accounting principles (GAAP) and prevailing practices within the financial services industry. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and income and expenses during the reporting period. Actual results could differ from those estimates. Certain amounts in the financial statements for prior years have been reclassified to conform with the current financial statement presentation.

On November 2, 1998, the merger involving Norwest Corporation and Wells Fargo & Company (the Merger) was completed. Norwest Corporation changed its name to "Wells Fargo & Company" and the former Wells Fargo & Company (the former Wells Fargo) became a wholly-owned subsidiary of Norwest Corporation. Norwest Corporation as it was before the Merger is referred to as the former Norwest. The Merger was accounted for as a pooling of interests and, accordingly, the information included in the financial statements presents the combined results as if the Merger had been in effect for all periods presented. The following is a description of the significant accounting policies of the Company.

CONSOLIDATION

The consolidated financial statements of the Company include the accounts of the Parent, and its majority-owned subsidiaries, which are consolidated on a line-by-line basis. Significant intercompany accounts and transactions are eliminated in consolidation. Other subsidiaries and affiliates in which there is at least 20% ownership are generally accounted for by the equity method; those in which there is less than 20% ownership are generally carried at cost. Investments that are accounted for by either the equity or cost method are included in other assets.

SECURITIES

Securities are accounted for according to their purpose and holding period.

SECURITIES AVAILABLE FOR SALE Debt securities that may not be held until maturity and marketable equity securities are classified as securities available for sale and are reported at fair value, with unrealized gains and losses, after applicable taxes, reported as a component of cumulative other comprehensive income. The estimated fair value of a security is determined based on current quotations, where available. Where current quotations are not available, the estimated fair value is determined based primarily on the present value of future cash flows, adjusted for the quality rating of the securities, prepayment assumptions and other factors. Declines in the value of debt securities and marketable equity securities that are considered other than temporary are recorded in noninterest income as a loss on securities available for sale. Realized gains and losses are recorded in noninterest income using the identified certificate method. For certain debt securities (for example, Government National Mortgage Association securities), the Company anticipates prepayments of principal in the calculation of the effective yield.

TRADING SECURITIES Securities acquired for short-term appreciation or other trading purposes are recorded in a trading portfolio and are carried at fair value, with unrealized gains and losses recorded in noninterest income.

NONMARKETABLE EQUITY SECURITIES Nonmarketable equity securities include the venture capital equity securities that are not publicly traded and securities acquired for various purposes, such as troubled debt restructurings and as a regulatory requirement (for example, Federal Reserve Bank stock). These securities are generally accounted for at cost. The asset value is reduced when declines in value are considered to be other than temporary and the estimated loss is recorded in noninterest income as a loss from equity investments along with income recognized on these assets.

MORTGAGES HELD FOR SALE

Mortgages held for sale are stated at the lower of aggregate cost or market value. The determination of market value includes consideration of all open positions, outstanding commitments from investors, related fees paid and related hedging gains and losses. Gains and losses on sales of mortgages are recognized at settlement dates and are determined by the difference between sales proceeds and the carrying value of the mortgages. Gains and losses are recorded in noninterest income.

LOANS HELD FOR SALE

Loans held for sale include those student loans which are classified as held for sale because the Company does not intend to hold these loans until maturity or sales of the loans are pending. Such loans are carried at the lower of aggregate cost or market value. Gains and losses are recorded in noninterest income, based on the difference between sales proceeds and carrying value.

LOANS

Loans are reported at the principal amount outstanding, net of unearned income. Unearned income, which includes deferred fees net of deferred direct incremental loan origination costs, is amortized to interest income generally over the contractual life of the loan using an interest method or the straight-line method if it is not materially different.

NONACCRUAL LOANS Generally, loans are placed on nonaccrual status upon becoming 90 days past due as to interest or principal (unless both well-secured and in the process of collection), when the full timely collection of interest or principal becomes uncertain or when a portion of the principal balance has been charged off. Real estate 1-4 family loans (both first liens and junior liens) are placed on nonaccrual status within 120 days of becoming past due as to interest or principal, regardless of security. Generally, consumer loans not secured by real estate are placed on nonaccrual status only when a portion of the principal has been charged off. Such loans are entirely charged off when deemed uncollectible or when they reach a predetermined number of days past due depending upon loan product, industry practice, country, terms and other factors.

When a loan is placed on nonaccrual status, the accrued and unpaid interest receivable is reversed and the loan is accounted for on the cash or cost recovery method thereafter, until qualifying for return to accrual status. Generally, a loan may be returned to accrual status when all delinquent interest and principal become current in accordance with the terms of the loan agreement or when the loan is both well-secured and in the process of collection and collectibility is no longer doubtful.

IMPAIRED LOANS Loans, other than those included in large groups of smaller-balance homogeneous loans, are considered impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement, including scheduled interest payments. For a loan that has been restructured, the contractual terms of the loan agreement refer to the contractual terms specified by the original loan agreement, not the contractual terms specified by the restructuring agreement.

This assessment for impairment occurs when and while such loans are on nonaccrual, or the loan has been restructured. When a loan with unique risk characteristics has been identified as being impaired, the amount of impairment will be measured by the Company using discounted cash flows, except when it is determined that the sole (remaining) source of repayment for the loan is the operation or liquidation of the underlying collateral. In such cases, the current fair value of the collateral, reduced by costs to sell, will be used in place of discounted cash flows. Additionally, some impaired loans with commitments of less than \$1 million are aggregated for the purpose of measuring impairment using historical loss factors as a means of measurement.

If the measurement of the impaired loan is less than the recorded investment in the loan (including accrued interest, net deferred loan fees or costs and unamortized premium or discount), an impairment is recognized by creating or adjusting an existing allocation of the allowance for loan losses.

RESTRUCTURED LOANS In cases where a borrower experiences financial difficulties and the Company makes certain concessionary modifications to contractual terms, the loan is classified as a restructured (accruing) loan. Loans restructured at a rate equal to or greater than that of a new loan with comparable risk at the time the contract is modified may be excluded from the impairment assessment and may cease to be considered impaired loans in the calendar years subsequent to the restructuring if they are not impaired based on the modified terms.

Generally, a nonaccrual loan that is restructured remains on nonaccrual for a period of six months to demonstrate that the borrower can meet the restructured terms. However, performance prior to the restructuring, or significant events that coincide with the restructuring, are included in assessing whether the borrower can meet the new terms and may result in the loan being returned to accrual at the time of restructuring or after a shorter performance period. If the borrower's ability to meet the revised payment schedule is uncertain, the loan remains classified as a nonaccrual loan.

ALLOWANCE FOR LOAN LOSSES The allowance for loan losses is a valuation allowance for probable losses inherent in the portfolio as of the balance sheet date. The Company's determination of the level of the allowance for loan losses rests upon various judgments and assumptions, including general economic conditions, loan portfolio composition, prior loan loss experience, evaluation of credit risk related to certain individual borrowers and the Company's ongoing examination process and that of its regulators. The Company considers the allowance for loan losses adequate to cover losses inherent in loans, loan commitments and standby and other letters of credit.

TRANSFERS AND SERVICING OF FINANCIAL ASSETS

A transfer of financial assets is accounted for as a sale when control is surrendered over the assets transferred. Servicing rights and other retained interests in the assets sold are recorded by allocating the previous recorded investment between the asset sold and the interest retained based on their relative fair values, if practicable to determine, at the date of transfer.

The Company recognizes as assets the rights to service mortgage loans for others, whether the servicing rights are acquired through purchases or retained upon sales of loan originations. For purposes of evaluating and measuring impairment of mortgage servicing rights, the Company stratifies its portfolio on the basis of certain risk characteristics including loan type and note rate. Based upon current fair values and considering derivative financial instruments used as hedges, mortgage servicing rights are periodically assessed for impairment. Impairment is recognized during the period in which impairment occurs. Mortgage servicing rights are amortized over the period of estimated net servicing income and take into account appropriate prepayment assumptions.

PREMISES AND EQUIPMENT

Premises and equipment are stated at cost less accumulated depreciation and amortization. Capital leases are included in premises and equipment at the capitalized amount less accumulated amortization.

Depreciation and amortization are computed primarily using the straight-line method. Estimated useful lives range up to 40 years for buildings, 2 to 10 years for furniture and equipment, and up to the lease term for leasehold improvements. Capitalized leased assets are amortized on a straight-line basis over the lives of the respective leases, which generally range from 20 to 35 years.

GOODWILL AND IDENTIFIABLE INTANGIBLE ASSETS

Goodwill, representing the excess of purchase price over the fair value of net assets acquired, results from purchase acquisitions made by the Company. Substantially all of the Company's goodwill is being amortized using the straight-line method over 25 years. Core deposit intangibles are amortized on an accelerated basis based on an estimated useful life of 10 to 15 years. Certain identifiable intangible assets that are included in other assets are generally amortized using an accelerated method over an original life of 10 to 15 years.

The Company reviews its intangible assets periodically for other-than-temporary impairment. If such impairment is indicated, recoverability of the asset is assessed based on expected undiscounted net cash flows.

INCOME TAXES

The Company files a consolidated federal income tax return. Federal income tax is generally allocated to individual subsidiaries as if each had filed a separate return. Combined state tax returns are filed in certain states. State taxes are also allocated to individual subsidiaries.

Deferred income tax assets and liabilities are determined using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is determined based on the tax effects of the differences between the book and tax bases of the various balance sheet assets and liabilities and gives current recognition to changes in tax rates and laws. Foreign taxes paid are applied as credits to reduce federal income taxes payable.

EARNINGS PER COMMON SHARE

Earnings per common share are presented under two formats: earnings per common share and diluted earnings per common share. Earnings per common share are computed by dividing net income (after deducting dividends on preferred stock) by the average number of common shares outstanding during the year. Diluted earnings per common share are computed by dividing net income (after deducting dividends on preferred stock) by the average number of common shares outstanding during the year, plus the impact of those common stock equivalents (i.e., stock options, restricted share rights and convertible subordinated debentures) that are dilutive.

DERIVATIVE FINANCIAL INSTRUMENTS

INTEREST RATE DERIVATIVES The Company uses interest rate derivative financial instruments (futures contracts, forward contracts, swaps, caps, floors and options) primarily to hedge mismatches in the rate maturity of loans and their funding sources and the price risk of interest-rate sensitive assets. These instruments serve to reduce rather than increase the Company's exposure to movements in interest rates. At the inception of the hedge, the Company identifies an individual asset or liability, or an identifiable group of essentially similar assets or liabilities, that expose the Company to interest rate risk at the consolidated or enterprise level. Interest rate derivatives are accounted for by the deferral or accrual method only if they are designated as hedges and are expected to be and are effective in substantially reducing the risk arising from the asset or liability identified as exposing the Company to risk. Futures contracts must meet specific high correlation tests. For caps, floors and swaps that are used to hedge mismatches between interest-bearing assets and liabilities, their notional amount, interest rate index and life must closely match the related terms of the hedged asset or liability. Floors, swaps and options that hedge mortgage servicing rights must correlate based on certain duration and convexity parameters. For futures contracts, if the underlying financial instrument differs from the hedged asset or liability, there must

be a clear economic relationship between the prices of the two financial instruments. If periodic assessment indicates that the derivatives no longer provide an effective hedge, hedge accounting is discontinued; previously unrecognized hedge results and the net settlement upon close-out or termination that offset changes in value of the hedged asset or liability are deferred and amortized over the life of the asset or liability with excess amounts recognized in noninterest income or noninterest expense.

Gains and losses on futures contracts, which result from the daily settlement of their open positions, and on forward contracts are deferred and classified on the balance sheet consistent with the hedge strategy. They are recognized in income along with and when the effects of the related changes of the hedged asset or liability are recognized. Amounts payable or receivable for swaps, caps and floors are accrued with the passage of time, the effect of which is included in income along with and when the effects of the related changes of the hedged asset or liability are recognized. Gains and losses on options are recognized as a component of the income reported on the hedged asset or liability. Fees associated with these financial contracts are included on the balance sheet at the time that the fee is paid and are classified consistent with the hedge strategy. These fees are fully recognized by the end of their contractual life.

If a hedged asset or liability settles before maturity of the hedging interest rate derivatives, the derivatives are closed out or settled, or are redesignated as hedges of other assets or liabilities. For those contracts that are closed out or settled, previously unrecognized hedge results and the net settlement upon close-out or termination are accounted for as part of the gains and losses on the hedged asset or liability. If interest rate derivatives used in an effective hedge are closed out or terminated before the hedged item settles, previously unrecognized hedge results and the net settlement upon close-out or termination are deferred and amortized over the life of the hedged asset or liability. Cash flows resulting from interest rate derivatives (including any related fees) that are accounted for as hedges of assets and liabilities are classified in the cash flow statement in the same category as the cash flows from the items being hedged and are reflected in that statement when the cash receipts or payments due under the terms of the instruments are collected, paid or settled.

Interest rate derivatives entered into as an accommodation to customers, interest rate derivatives used to offset the interest rate risk of those contracts and positions taken based on the Company's market expectations or to benefit from price differentials between financial instruments and markets are carried at fair value with unrealized gains and losses recorded in noninterest income. Losses are recognized currently on put options written when the fair value of the underlying security falls below the contractual price at which the security may be put to the Company plus the premium received. Premiums received on covered call options written are deferred until the option terminates. If the fair value of the underlying asset is

greater than the contractual price at which the Company must sell the asset, the option should be exercised, at which time the premium will be recorded as an adjustment of the gain or loss recognized on the underlying asset. If the option expires, the premium is recognized in other noninterest income. The fair value of interest rate derivative financial instruments with an unrealized gain is included in trading assets (i.e., within other assets) while the fair value of instruments with an unrealized loss is included in other liabilities. Cash flows resulting from instruments carried at fair value are classified in the cash flow statement as operating cash flows and are reflected in that statement when the cash receipts or payments due under the terms of the instruments are collected, paid or settled.

Credit risk related to interest rate derivative financial instruments is considered and, if material, provided for separately from the allowance for loan losses.

FOREIGN EXCHANGE DERIVATIVES The Company enters into foreign exchange derivative financial instruments (forward and spot contracts and options) primarily as an accommodation to customers and offsets the related foreign exchange risk with other foreign exchange derivatives. Those contracts are carried at fair value, with unrealized gains and losses recorded in non-interest income. Cash flows resulting from foreign exchange derivatives are classified in the cash flow statement as operating cash flows and are reflected in that statement when the cash receipts or payments due under the terms of the foreign exchange derivatives are collected, paid or settled.

The Company also uses forward foreign exchange contracts to hedge uncertainties in funding costs related to specific liabilities denominated in foreign currencies. Gains and losses on those contracts are recognized in income and classified on the balance sheet consistent with the hedged item. Cash flows resulting from these foreign exchange derivatives (including any related fees) are classified in the cash flow statement in the same category as the cash flows from the item being hedged and are reflected in that statement when the cash receipts or payments due under the terms of the instruments are collected, paid or settled.

Credit risk related to all foreign exchange derivatives is considered and, if material, provided for separately from the allowance for loan losses.

FOREIGN CURRENCY TRANSLATION

The accounts of the Company's foreign consumer finance subsidiaries are measured using local currency as the functional currency. Assets and liabilities are translated into United States dollars at period-end exchange rates, and income and expense accounts are translated at average monthly exchange rates. Net exchange gains or losses resulting from such translation are excluded from net income and included as a component of cumulative other comprehensive income.

NOTE 2 BUSINESS COMBINATIONS

The Company regularly explores opportunities to acquire financial institutions and related businesses. Generally, management of the Company does not make a public announcement about an acquisition opportunity until a definitive agreement is signed.

Excluding the Merger involving Norwest Corporation and Wells Fargo & Company, the table below includes transactions completed in the years ended December 31, 1999, 1998 and 1997:

(in millions)	Date	Assets	Method of accounting
1999			
Mid-Penn Consumer Discount Company, Philadelphia, Pennsylvania	January 21	\$ 11	Purchase
Century Business Credit Corporation, New York, New York	February 1	342	Purchase
Metropolitan Bancshares, Inc., Aurora, Colorado	February 23	64	Purchase
Mercantile Financial Enterprises, Inc., Brownsville, Texas	February 26	779	Pooling of interests*
Riverton State Bank Holding Company, Riverton, Wyoming	March 12	81	Purchase
Greater Midwest Leasing Company, Minneapolis, Minnesota	June 3	24	Purchase
Mustang Financial Corporation, Rio Vista, Texas	June 25	254	Purchase
Eastern Heights Bank, St. Paul, Minnesota	July 1	453	Purchase
Goodson Insurance Agency, Denver, Colorado	August 1	—	Purchase
SB Insurance Company, Marshall, Minnesota	October 15	—	Purchase
Allied Leasing Company, Burnsville, Minnesota	November 1	17	Purchase
Eastdil Realty Company, L.L.C., New York, New York	November 16	9	Purchase
Texas Bancshares, Inc., San Antonio, Texas	December 16	370	Purchase
		<u>\$2,404</u>	
1998			
Finvercon S.A. Compania, Financiera, Argentina	January 8	\$ 57	Purchase
Fidelity Bancshares, Inc., Fort Worth, Texas	January 13	111	Purchase
Heritage Trust Company, Grand Junction, Colorado	February 20	2	Purchase
Founders Trust Company, Dallas, Texas	March 2	2	Purchase
The T. Eaton Acceptance Company Limited and National Retail Credit Services Limited, Don Mills, Ontario, Canada	April 21	370	Purchase
WMC Mortgage Corporation, Woodland Hills, California	April 30	5	Purchase
First Bank, Katy, Texas	May 22	310	Pooling of interests*
First Bank of Grants, Grants, New Mexico	May 28	45	Purchase
Spring Mountain Escrow Corporation, Irvine, California	May 29	1	Purchase
Emjay Corporation, Milwaukee, Wisconsin	June 15	6	Purchase
Six affiliated bank holding companies and related entities, located in Minnesota, Wisconsin, New Mexico, Arizona and Colorado, including MidAmerica	July 2, 23	1,317	Pooling of interests*
First Bancshares of Valley City, Inc., Valley City, North Dakota	July 31	96	Purchase
Peoples Insurance Agency, Inc., Valley City, North Dakota	July 31	—	Purchase
Star Bancshares, Inc., Austin, Texas	August 31	582	Pooling of interests*
Freedom Trailer Leasing, Inc., Chesterfield, Missouri	August 31	5	Purchase
Little Mountain Bancshares, Inc., Monticello, Minnesota	September 8	82	Purchase
First National Bank of Missouri City, Missouri City, Texas	October 30	91	Purchase
Franklin Bancshares, Inc., Franklin, Texas	December 1	72	Purchase
		<u>\$3,154</u>	

(in millions)	Date	Assets	Method of accounting
1997			
Franklin Federal Bancorp., F.S.B., Austin, Texas	January 1	\$ 621	Purchase of assets
Central Bancorporation, Inc., Fort Worth, Texas	January 28	1,105	Pooling of interests*
Reliable Financial Services, Inc., San Juan, Puerto Rico	February 21	39	Pooling of interests*
Statewide Mortgage Company, Birmingham, Alabama	February 26	28	Purchase
The United Group, Inc., Charlotte, North Carolina	March 21	41	Purchase
Farmers National Bancorp, Inc., Geneseo, Illinois	March 24	198	Purchase
The First National Bankshares, Inc., Tucumcari, New Mexico	June 17	90	Purchase
Tennessee Credit Corporation, Nashville, Tennessee	July 18	13	Purchase
Western National Trust Company, National Association, Odessa, Texas	July 31	—	Purchase
Fidelity Acceptance Corporation, St. Louis, Missouri	August 31	1,135	Purchase
The Bank of the Southwest, National Association, Pagosa Springs, Colorado	September 2	85	Purchase
International Bancorporation, Inc., Golden Valley, Minnesota	October 21	483	Pooling of interests*
Subsidiaries of Cityside Holding L.L.C., Eden Prairie, Minnesota	October 30	104	Purchase
J.L.J. Financial Services Corporation, Montvale, New Jersey	October 31	26	Purchase
Myers Bancshares Inc., Dallas, Texas	November 14	135	Purchase
Packers Management Company, Inc., Omaha, Nebraska	November 25	162	Purchase
First Valley Bank Group, Inc., Los Fresnos, Texas	December 1	519	Pooling of interests*
		<u>\$4,784</u>	

* Pooling of interests transaction was not material to the Company's consolidated financial statements; accordingly, previously reported results were not restated.

In connection with the foregoing transactions, the Company paid cash in the aggregate amount of \$541 million, \$330 million and \$486 million in 1999, 1998 and 1997, respectively, and issued aggregate common shares of 8.0 million, 16.7 million and 23.8 million in 1999, 1998 and 1997, respectively. At December 31, 1999, the Company had announced 7 pending transactions with total assets of approximately \$6.9 billion and anticipated that approximately 48 million common shares will be issued upon consummation of these transactions. These pending acquisitions, subject to approval by regulatory agencies, are expected to be completed by mid-2000.

MERGER INVOLVING NORWEST AND WELLS FARGO

On November 2, 1998, the Merger involving Norwest Corporation and Wells Fargo & Company was completed. Under the terms of the Merger agreement, stockholders of the former Wells Fargo received 10 shares of common stock of the Company for each share of common stock owned. Each share of former Wells Fargo preferred stock was converted into one share of the Company's preferred stock. These shares rank on parity with the Company's preferred stock as to dividends and upon liquidation. Each outstanding and unexercised option granted by the former Wells Fargo was converted into an option to purchase common stock of the Company based on the agreed-upon exchange ratio.

As a condition to the Merger, the Company was required by regulatory agencies to divest stores in Arizona and Nevada having aggregate deposits of approximately \$1 billion. As a

result of these sales, which were completed in 1999, \$104 million of pretax gains were included in noninterest income as net gains on dispositions of operations.

In connection with the Merger, the Company recorded approximately \$600 million of restructuring charges in the fourth quarter of 1998. The restructuring plans are evaluated on a regular basis during the integration process. The charges included a severance-related reserve of \$280 million associated with the elimination into 2000 of about 5% of the Company's positions. This reserve was determined based on the Company's existing severance plans for involuntary terminations. The charges also included approximately \$250 million related to dispositions of owned and leased premises held for sale or remarketing, which is expected to be used by mid-2000, and \$70 million of other costs associated with exiting activities due to the Merger. The following table presents the 1999 activity in these restructuring reserves:

(in millions)	Severance-related costs	Premises	Other	Total
Balance, December 31, 1998	\$280 ⁽¹⁾	\$ 250 ⁽²⁾	\$ 70	\$ 600
Utilization	(95)	(131)	(64)	(290)
Changes in estimates	—	(31)	—	(31)
Balance, December 31, 1999	<u>\$185</u>	<u>\$ 88</u> ⁽³⁾	<u>\$ 6</u>	<u>\$ 279</u>

(1) The 1998 charges recorded for severance-related costs were classified on the income statement as salaries.

(2) The 1998 charges recorded for premises were classified on the income statement as net losses on dispositions of premises and equipment.

(3) Includes \$38 million of owned premises.

Total utilization included approximately \$97 million of cash payments, \$68 million of legal obligations as of December 31, 1999 and \$125 million of write-downs. Approximately 1,730 employees had entered the severance process through December 31, 1999.

A majority of the changes in estimates resulted from a reassessment of the economics and space requirements at a

leased Colorado office building complex. The reassessment indicated that the complex could be reconfigured to meet the Company's needs. The changes in estimates were recorded on the income statement as an adjustment to net (gains) losses on dispositions of premises and equipment. The suspension of depreciation on assets held for disposition reduced net occupancy and equipment expense by a total of \$15 million in 1999.

NOTE 3 CASH, LOAN AND DIVIDEND RESTRICTIONS

Federal Reserve Board (FRB) regulations require reserve balances on deposits to be maintained by each of the banking subsidiaries with the Federal Reserve Banks. The average required reserve balance was \$2.0 billion and \$2.2 billion in 1999 and 1998, respectively.

Federal law prevents the Company and its nonbank subsidiaries from borrowing from its subsidiary banks unless the loans are secured by specified collateral. Such secured loans by any subsidiary bank are generally limited to 10% of the subsidiary bank's capital and surplus (as defined, which for this purpose represents Tier 1 and Tier 2 capital, as calculated under the risk-based capital guidelines, plus the balance of the allowance for loan losses excluded from Tier 2 capital) and aggregate loans to the Company and its nonbank subsidiaries are limited to 20% of the subsidiary bank's capital and surplus. (For further discussion of risk-based capital, see Note 22 to Financial Statements.)

The payment of dividends to the Parent by subsidiary banks is subject to various federal and state regulatory limitations. Dividends payable by a national bank to the Parent without the express approval of the Office of the Comptroller of the Currency (OCC) are limited to that bank's retained net profits for the preceding two calendar years plus retained net profits up to the date of any dividend declaration in the current calendar

year. Retained net profits are defined by the OCC as net income, less dividends declared during the period, both of which are based on regulatory accounting principles. The Company also has state-chartered subsidiary banks that are subject to state regulations that limit dividends. Under these provisions and except for Wells Fargo Bank, N.A. (WFB, N.A.), the Company's national and state-chartered subsidiary banks could have declared dividends of \$1,061 million and \$687 million in 1999 and 1998, respectively, without obtaining prior regulatory approval. With the express approval of the OCC, WFB, N.A. declared dividends in 1999 and 1998 of \$500 million in excess of its net income of 1,876 million for those years. (The total dividends declared by WFB, N.A. in 1999, 1998 and 1997 were \$900 million, \$1,476 million and \$2,019 million, respectively.) Therefore, before it can declare dividends in 2000 without the approval of the OCC, WFB, N.A. must have net income of \$500 million plus an amount greater than the dividends declared in 2000. Since it is not expected to have net income of \$500 million plus an amount greater than the dividends expected to be declared in 2000, WFB, N.A. will again need to obtain the approval of the OCC before any dividends are declared in 2000. In addition, the Company's non-bank subsidiaries could have declared dividends of \$1,195 million and \$1,205 million at December 31, 1999 and 1998, respectively.

NOTE 4 SECURITIES AVAILABLE FOR SALE

The following table provides the cost and fair value for the major components of securities available for sale carried at

fair value. There were no securities classified as held to maturity at the end of 1999 or 1998.

(in millions)	1999				December 31, 1998			
	Cost	Estimated unrealized gross gains	Estimated unrealized gross losses	Estimated fair value	Cost	Estimated unrealized gross gains	Estimated unrealized gross losses	Estimated fair value
Securities of U.S. Treasury and federal agencies	\$ 5,956	\$ 13	\$ 338	\$ 5,631	\$ 3,260	\$ 45	\$ 18	\$ 3,287
Securities of U.S. states and political subdivisions	2,041	48	28	2,061	1,683	115	4	1,794
Mortgage-backed securities:								
Federal agencies	22,774	109	336	22,547	20,539	293	28	20,804
Private collateralized mortgage obligations ⁽¹⁾	<u>2,855</u>	<u>12</u>	<u>63</u>	<u>2,804</u>	<u>3,420</u>	<u>29</u>	<u>9</u>	<u>3,440</u>
Total mortgage-backed securities	25,629	121	399	25,351	23,959	322	37	24,244
Other	<u>2,289</u>	<u>8</u>	<u>93</u>	<u>2,204</u>	<u>1,879</u>	<u>41</u>	<u>21</u>	<u>1,899</u>
Total debt securities	35,915	190	858	35,247	30,781	523	80	31,224
Marketable equity securities	<u>1,314</u>	<u>1,984</u>	<u>27</u>	<u>3,271</u>	<u>386</u>	<u>396</u>	<u>9</u>	<u>773</u>
Total	<u>\$37,229</u>	<u>\$2,174</u>	<u>\$885</u>	<u>\$38,518</u>	<u>\$31,167</u>	<u>\$919</u>	<u>\$89</u>	<u>\$31,997</u>

(1) Substantially all private collateralized mortgage obligations are AAA-rated bonds collateralized by 1-4 family residential first mortgages.

At December 31, 1999, the Company held no securities of any single issuer (excluding the U.S. Treasury and federal agencies) with a book value that exceeded 10% of stockholders' equity.

Securities pledged primarily to secure trust and public deposits and for other purposes as required or permitted by law were \$15.5 billion and \$11.2 billion at December 31, 1999 and 1998, respectively.

The table on the right provides the components of the realized net (loss) gain on securities from the securities available for sale portfolio. (Realized gains on marketable equity securities from venture capital investments are reported as net venture capital gains.)

(in millions)	Year ended December 31,		
	1999	1998	1997
Realized gross gains	\$ 76	\$209	\$168
Realized gross losses	<u>(317)</u>	<u>(40)</u>	<u>(69)</u>
Realized net (loss) gain	<u>\$ (241)</u>	<u>\$ 169</u>	<u>\$ 99</u>

The table below provides the remaining contractual principal maturities and yields (taxable-equivalent basis) of debt securities available for sale. The remaining contractual principal maturities for mortgage-backed securities were allocated assuming no prepayments. Expected remaining maturities will differ from contractual maturities because borrowers may have the right to prepay obligations with or without penalties.

(in millions)	December 31, 1999									
	Total amount	Weighted average yield	Remaining contractual principal maturity							
			Within one year		After one year through five years		After five years through ten years		After ten years	
			Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
Securities of U.S. Treasury and federal agencies	\$ 5,631	5.71%	\$ 626	6.38%	\$1,123	6.39%	\$3,065	5.33%	\$ 817	5.72%
Securities of U.S. states and political subdivisions	2,061	8.28	104	7.97	338	7.88	187	7.35	1,432	8.52
Mortgage-backed securities:										
Federal agencies	22,547	7.11	650	6.55	1,837	7.01	2,453	7.18	17,607	7.13
Private collateralized mortgage obligations	<u>2,804</u>	<u>6.51</u>	<u>76</u>	<u>6.32</u>	<u>317</u>	<u>6.40</u>	<u>446</u>	<u>6.46</u>	<u>1,965</u>	<u>6.55</u>
Total mortgage-backed securities	25,351	7.04	726	6.52	2,154	6.92	2,899	7.07	19,572	7.07
Other	<u>2,204</u>	<u>5.28</u>	<u>80</u>	<u>5.03</u>	<u>538</u>	<u>3.98</u>	<u>989</u>	<u>5.75</u>	<u>597</u>	<u>5.70</u>
ESTIMATED FAIR VALUE OF DEBT SECURITIES ⁽¹⁾	<u>\$35,247</u>	<u>6.79%</u>	<u>\$1,536</u>	<u>6.48%</u>	<u>\$4,153</u>	<u>6.47%</u>	<u>\$7,140</u>	<u>6.14%</u>	<u>\$22,418</u>	<u>7.08%</u>
TOTAL COST OF DEBT SECURITIES	<u>\$35,915</u>		<u>\$1,581</u>		<u>\$4,259</u>		<u>\$7,388</u>		<u>\$22,687</u>	

(1) The weighted average yield is computed using the amortized cost of debt securities available for sale.

NOTE 5

LOANS AND ALLOWANCE FOR LOAN LOSSES

A summary of the major categories of loans outstanding and related unfunded commitments is shown in the following table. Unfunded commitments are defined as all legally binding agreements to extend credit, net of all funds lent, and all standby and commercial letters of credit issued under the terms of those commitments. At December 31, 1999 and 1998, the commercial loan category and related unfunded commitments

did not have an industry concentration that exceeded 10% of total loans and unfunded commitments. At December 31, 1999 and 1998, the real estate 1-4 family first mortgage and junior lien mortgage categories and related unfunded commitments did not have a concentration in any state that exceeded 10% of total loans and unfunded commitments.

(in millions)	1999		December 31, 1998	
	Outstanding	Commitments to extend credit	Outstanding	Commitments to extend credit
Commercial	\$ 38,688	\$39,793	\$ 35,450	\$34,892
Real estate 1-4 family first mortgage	12,398	1,425	11,496	1,311
Other real estate mortgage	19,178	1,438	16,668	1,302
Real estate construction	4,711	2,710	3,790	3,007
Consumer:				
Real estate 1-4 family junior lien mortgage	12,938	5,432	11,128	5,792
Credit card	5,472	19,023	5,795	18,874
Other revolving credit and monthly payment	<u>16,656</u>	<u>4,646</u>	<u>15,809</u>	<u>6,236</u>
Total consumer	35,066	29,101	32,732	30,902
Lease financing	7,850	—	6,380	—
Foreign	<u>1,573</u>	<u>115</u>	<u>1,478</u>	<u>53</u>
Total loans ⁽¹⁾	<u>\$119,464</u>	<u>\$74,582</u>	<u>\$107,994</u>	<u>\$71,467</u>

(1) Outstanding loan balances at December 31, 1999 and 1998 are net of unearned income, including net deferred loan fees, of \$3,200 million and \$2,967 million, respectively.

In the course of evaluating the credit risk presented by a customer and the pricing that will adequately compensate the Company for assuming that risk, management may require a certain amount of collateral support. The type of collateral held varies, but may include accounts receivable, inventory, land, buildings, equipment, income-producing commercial properties and residential real estate. The Company has the same collateral policy for loans whether they are funded immediately or on a delayed basis (commitment).

A commitment to extend credit is a legally binding agreement to lend funds to a customer usually at a stated interest rate and for a specified purpose. Such commitments have fixed expiration dates and generally require a fee. The extension of a commitment gives rise to credit risk. The actual liquidity needs or the credit risk that the Company will experience will be lower than the contractual amount of commitments to extend credit shown in the table above because a significant portion of those commitments are expected to expire without being drawn upon. Certain commitments are subject to loan agreements containing covenants regarding the financial performance of the customer that must be met before the Company is required to fund the commitment. The Company uses the same credit policies in making commitments to extend credit as it does in making loans.

In addition, the Company manages the potential credit risk in commitments to extend credit by limiting the total amount of arrangements, both by individual customer and in the aggregate; by monitoring the size and maturity structure of these portfolios; and by applying the same credit standards maintained for all of its related credit activities. The credit risk associated with these commitments is considered in management's determination of the allowance for loan losses.

Standby letters of credit totaled \$4,355 million and \$3,332 million at December 31, 1999 and 1998, respectively. Standby letters of credit are issued on behalf of customers in connection with contracts between the customers and third parties. Under standby letters of credit, the Company assures that the third parties will receive specified funds if customers fail to meet their contractual obligations. The liquidity risk to the Company arises from its obligation to make payment in the event of a customer's contractual default. The credit risk involved in issuing standby letters of credit and the Company's management of that credit risk is considered in management's determination of the allowance for loan losses. Standby letters of credit are net of participations sold to other institutions of \$1,256 million in 1999 and \$837 million in 1998.

Included in standby letters of credit are those that back financial instruments (financial guarantees). The Company had issued or purchased participations in financial guarantees of approximately \$2,607 million and \$2,188 million at December 31, 1999 and 1998, respectively. The Company also had commitments for commercial and similar letters of credit of \$745 million and \$691 million at December 31, 1999 and 1998, respectively. Substantially all fees received from the issuance of financial guarantees are deferred and amortized on a straight-line basis over the term of the guarantee.

The Company has an established process to determine the adequacy of the allowance for loan losses which assesses the risk and losses inherent in its portfolio. This process provides an allowance consisting of two components, allocated and unallocated. To arrive at the allocated component of the allowance, the Company combines estimates of the allowances needed for loans analyzed individually (including impaired loans subject to Statement of Financial Accounting Standards No. 114 (FAS 114), *Accounting by Creditors for Impairment of a Loan*) and loans analyzed on a pool basis.

The determination of allocated reserves for portfolios of larger commercial and commercial real estate loans involves a review of individual higher-risk transactions, focusing on the accuracy of loan grading, assessments of specific loss content, and, in some cases, strategies for resolving problem credits. These considerations supplement the application of loss factors delineated by individual loan grade to the existing distribution of risk exposures, thus framing an assessment of inherent losses across the entire wholesale lending portfolio segment which is responsive to shifts in portfolio risk content. The loss factors used for this analysis have been derived from migration models which track actual portfolio movements from problem asset loan grades to loss over a 5 to 10 year period. In the case of pass loan grades, the loss factors are derived from analogous loss experience in public debt markets, calibrated to the long-term average loss experience of the Company's portfolios. The loan loss reserve allocations arrived at through this factor methodology are adjusted by management's judgment concerning the effect of recent economic events on portfolio performance.

In the case of more homogeneous portfolios, such as consumer loans and leases, residential mortgage loans, and some segments of small business lending, the determination of allocated reserves is conducted at a more aggregate, or pooled, level. For portfolios of this nature, the risk assessment process emphasizes the development of rigorous forecasting models, which focus on recent delinquency and loss trends in different portfolio segments to project relevant risk metrics over an intermediate-term horizon. Such analyses are updated frequently to capture the most recent behavioral characteristics of the subject portfolios, as well as any changes in

management's loss mitigation or customer solicitation strategies, in order to reduce the differences between estimated and observed losses. A reserve which approximates one year of projected net losses is provided as the baseline allocation for most homogeneous portfolios, to which management will add certain adjustments to ensure that a prudent amount of conservatism is present in the specific assumptions underlying that forecast.

While coverage of one year's losses is often adequate (particularly for homogeneous pools of loans and leases), the time period covered by the allowance may vary by portfolio, based on the Company's best estimate of the inherent losses in the entire portfolio as of the evaluation date. To mitigate the imprecision inherent in most estimates of expected credit losses, the allocated component of the allowance is supplemented by an unallocated component. The unallocated component includes management's judgmental determination of the amounts necessary for concentrations, economic uncertainties and other subjective factors; correspondingly, the relationship of the unallocated component to the total allowance for loan losses may fluctuate from period to period. At December 31, 1999, the unallocated portion amounted to 44% of the total allowance, compared with 37% at December 31, 1998. Although management has allocated a portion of the allowance to specific loan categories, the adequacy of the allowance must be considered in its entirety.

The Company's determination of the level of the allowance and, correspondingly, the provision for loan losses rests upon various judgments and assumptions, including general economic conditions, loan portfolio composition, prior loan loss experience and the Company's ongoing examination process and that of its regulators. The Company has an internal risk analysis and review staff that continuously reviews loan quality and reports the results of its examinations to executive management and the Board of Directors. Such reviews also assist management in establishing the level of the allowance. Like all national banks, subsidiary national banks continue to be subject to examination by their primary regulator, the Office of the Comptroller of the Currency (OCC), and some have OCC examiners in residence. These examinations occur throughout the year and target various activities of the subsidiary national banks, including specific segments of the loan portfolio (for example, commercial real estate and shared national credits). In addition to the subsidiary national banks being examined by the OCC, the Parent and its nonbank subsidiaries are examined by the FRB.

The Company considers the allowance for loan losses of \$3,170 million adequate to cover losses inherent in loans, loan commitments and standby and other letters of credit at December 31, 1999.

Changes in the allowance for loan losses were as follows:

(in millions)	Year ended December 31,		
	1999	1998	1997
Balance, beginning of year	\$ 3,134	\$ 3,062	\$ 3,059
Allowances related to business combinations, net	40	144	168
Provision for loan losses	1,045	1,545	1,140
Loan charge-offs:			
Commercial	(382)	(261)	(357)
Real estate 1-4 family first mortgage	(12)	(26)	(26)
Other real estate mortgage	(28)	(54)	(26)
Real estate construction	(2)	(3)	(5)
Consumer:			
Real estate 1-4 family junior lien mortgage	(33)	(31)	(37)
Credit card	(388)	(535)	(579)
Other revolving credit and monthly payment	(512)	(1,002)	(618)
Total consumer	(933)	(1,568)	(1,234)
Lease financing	(38)	(48)	(46)
Foreign	(90)	(84)	(37)
Total loan charge-offs	(1,485)	(2,044)	(1,731)
Loan recoveries:			
Commercial	86	82	105
Real estate 1-4 family first mortgage	6	11	9
Other real estate mortgage	37	78	62
Real estate construction	5	4	12
Consumer:			
Real estate 1-4 family junior lien mortgage	15	7	10
Credit card	46	56	61
Other revolving credit and monthly payment	214	163	144
Total consumer	275	226	215
Lease financing	12	12	13
Foreign	15	14	10
Total loan recoveries	436	427	426
Total net loan charge-offs	(1,049)	(1,617)	(1,305)
Balance, end of year	<u>\$ 3,170</u>	<u>\$ 3,134</u>	<u>\$ 3,062</u>
Total net loan charge-offs as a percentage of average total loans	<u>.94 %</u>	<u>1.52 %</u>	<u>1.25 %</u>
Allowance as a percentage of total loans	<u>2.65 %</u>	<u>2.90 %</u>	<u>2.88 %</u>

In accordance with FAS 114, the table below shows the recorded investment in impaired loans by methodology used to measure impairment at December 31, 1999 and 1998:

(in millions)	December 31,	
	1999	1998
Impairment measurement based on:		
Collateral value method	\$174	\$229
Discounted cash flow method	74	70
Historical loss factors	114	89
Total ⁽¹⁾	<u>\$362</u>	<u>\$388</u>

(1) Includes \$196 million and \$155 million of impaired loans with a related FAS 114 allowance of \$43 million and \$37 million at December 31, 1999 and 1998, respectively.

The average recorded investment in impaired loans during 1999, 1998 and 1997 was \$371 million, \$456 million and \$513 million, respectively. Total interest income recognized on impaired loans during 1999, 1998 and 1997 was \$7 million, \$13 million and \$15 million, respectively, which was primarily recorded using the cash method.

The Company uses either the cash or cost recovery method to record cash receipts on impaired loans that are on nonaccrual. Under the cash method, contractual interest is credited to interest income when received. This method is used when the ultimate collectibility of the total principal is not in doubt. Under the cost recovery method, all payments received are applied to principal. This method is used when the ultimate collectibility of the total principal is in doubt. Loans on the cost recovery method may be changed to the cash method when the application of the cash payments has reduced the principal balance to a level where collection of the remaining recorded investment is no longer in doubt.

NOTE 6 PREMISES, EQUIPMENT, LEASE COMMITMENTS, INTEREST RECEIVABLE AND OTHER ASSETS

The following table presents comparative data for premises and equipment:

(in millions)	December 31,	
	1999	1998
Land	\$ 358	\$ 357
Buildings	2,242	2,135
Furniture and equipment	2,480	2,688
Leasehold improvements	719	732
Premises leased under capital leases	76	80
Total	5,875	5,992
Less accumulated depreciation and amortization	2,890	2,862
Net book value	<u>\$2,985</u>	<u>\$3,130</u>

Depreciation and amortization expense was \$484 million, \$491 million and \$457 million in 1999, 1998 and 1997, respectively.

The Company is obligated under a number of noncancelable operating leases for premises (including vacant premises) and equipment with terms, including renewal options, up to 100 years, many of which provide for periodic adjustment of rentals based on changes in various economic indicators. The following table shows future minimum payments under noncancelable operating leases and capital leases, net of sublease rentals, with terms in excess of one year as of December 31, 1999:

(in millions)	Operating leases	Capital leases
Year ended December 31,		
2000	\$ 402	\$ 6
2001	334	5
2002	269	4
2003	197	3
2004	162	2
Thereafter	848	17
Total minimum lease payments	<u>\$2,212</u>	37
Executory costs		(2)
Amounts representing interest		(5)
Present value of net minimum lease payments		<u>\$30</u>

Rental expense, net of rental income, for all operating leases was \$377 million, \$473 million and \$441 million in 1999, 1998 and 1997, respectively.

The components of interest receivable and other assets at December 31, 1999 and 1998 were as follows:

(in millions)	December 31,	
	1999	1998
Nonmarketable equity investments	\$ 3,347	\$ 2,392
Trading assets	2,667	760
Government National Mortgage Association (GNMA) pool buyouts	1,516	1,624
Interest receivable	1,169	1,062
Certain identifiable intangible assets	230	212
Interest-earning deposits	196	113
Foreclosed assets	153	148
Due from customers on acceptances	103	128
Other	5,967	4,455
Total interest receivable and other assets	<u>\$15,348</u>	<u>\$10,894</u>

Noninterest income from nonmarketable equity investments accounted for using the cost method was \$138 million, \$151 million and \$157 million in 1999, 1998 and 1997, respectively.

GNMA pool buy outs are advances made to GNMA mortgage pools that are guaranteed by the Federal Housing Administration or by the Department of Veterans Affairs (collectively, "the guarantors"). These advances are made to buy out government agency-guaranteed delinquent loans, pursuant to the Company's servicing agreements. The Company, on behalf of the guarantors, undertakes the collection and foreclosure process. After the foreclosure process is complete, the Company is reimbursed for substantially all costs incurred, including the advances, by the guarantors.

Trading assets consist predominantly of securities, including corporate debt and U.S. government agency obligations. A major portion of the increase at December 31, 1999, compared with December 31, 1998 was due to an increase in U.S. Treasury securities. Interest income from trading assets was \$70 million, \$99 million and \$76 million in 1999, 1998 and 1997, respectively. Noninterest income from trading assets was \$103 million, \$206 million and \$151 million in 1999, 1998 and 1997, respectively.

Amortization expense for certain identifiable intangible assets included in other assets was \$46 million, \$79 million and \$74 million in 1999, 1998 and 1997, respectively.

NOTE 7 DEPOSITS

The aggregate amount of time certificates of deposit and other time deposits issued by domestic offices was \$27,670 million and \$31,252 million at December 31, 1999 and 1998, respectively. Substantially all of those deposits were interest bearing. The contractual maturities of those deposits are shown in the following table.

(in millions)	December 31, 1999
2000	\$22,249
2001	3,400
2002	1,100
2003	396
2004	287
Thereafter	<u>238</u>
Total	<u>\$27,670</u>

Of the total above, the amount of time deposits with a denomination of \$100,000 or more was \$7,970 million and \$8,053 million at December 31, 1999 and 1998, respectively.

The contractual maturities of these deposits are shown in the following table.

(in millions)	December 31, 1999
Three months or less	\$2,977
After three months through six months	2,129
After six months through twelve months	1,924
After twelve months	<u>940</u>
Total	<u>\$7,970</u>

Time certificates of deposit and other time deposits issued by foreign offices with a denomination of \$100,000 or more represent substantially all of the foreign deposit liabilities of \$3,255 million and \$746 million at December 31, 1999 and 1998, respectively.

Demand deposit overdrafts that have been reclassified as loan balances were \$868 million and \$678 million at December 31, 1999 and 1998, respectively.

NOTE 8 SHORT-TERM BORROWINGS

The table below shows selected information for short-term borrowings. These borrowings generally mature in less than 30 days.

(in millions)	1999		1998		1997	
	Amount	Rate	Amount	Rate	Amount	Rate
As of December 31,						
Commercial paper and other short-term borrowings	\$17,211	6.06%	\$ 9,553	5.26%	\$ 6,456	5.73%
Federal funds purchased and securities sold under agreements to repurchase	<u>10,784</u>	4.51	<u>6,344</u>	4.18	<u>6,925</u>	5.59
Total	<u>\$27,995</u>	5.46	<u>\$15,897</u>	4.83	<u>\$13,381</u>	5.65
Year ended December 31,						
Average daily balance						
Commercial paper and other short-term borrowings	\$10,242	5.40%	\$ 7,676	5.60%	\$ 5,473	5.59%
Federal funds purchased and securities sold under agreements to repurchase	<u>8,114</u>	4.57	<u>6,778</u>	5.11	<u>5,889</u>	5.17
Total	<u>\$18,356</u>	5.04	<u>\$14,454</u>	5.37	<u>\$11,362</u>	5.37
Maximum month-end balance						
Commercial paper and other short-term borrowings ⁽¹⁾	\$17,211	NA	\$10,236	NA	\$ 6,456	NA
Federal funds purchased and securities sold under agreements to repurchase ⁽²⁾	10,784	NA	10,364	NA	8,722	NA

NA-Not applicable.

(1) Highest month-end balance in each of the last three years appeared in December 1999, October 1998 and December 1997, respectively.

(2) Highest month-end balance in each of the last three years appeared in December 1999, April 1998 and June 1997, respectively.

At December 31, 1999, the Company had available lines of credit totaling \$4.0 billion, of which \$2.2 billion was obtained by a subsidiary, Norwest Financial. The remaining \$1.8 billion was in the form of a revolving credit facility.

A portion of these financing arrangements require the maintenance of compensating balances or payment of fees, which are not material.

NOTE 9

LONG-TERM DEBT

The following is a summary of long-term debt (reflecting unamortized debt discounts and premiums, where applicable) owed by the Parent and its subsidiaries:

(in millions)	Maturity date	Interest rate(s)	1999	1998
Wells Fargo & Company (Parent only)				
Senior				
Global Notes ⁽¹⁾	2002-2004	6.5% - 6.625%	\$ 2,243	\$ —
Global Notes	2001	Various	747	—
Medium-Term Notes ⁽¹⁾	2000-2006	5.225% - 8.15%	3,993	3,275
Medium-Term Notes	2000-2027	6.75% - 7.75%	820	1,125
Floating-Rate Medium-Term Notes	2000	Various	2,100	700
Floating-Rate Euro Medium-Term Notes	2001	Various	300	300
Notes ⁽¹⁾	2004	6.00%	1	2
Notes ⁽¹⁾	2000	6.00%	200	202
ESOP Notes	1999	8.52%	—	4
Total senior debt - Parent			<u>10,404</u>	<u>5,608</u>
Subordinated				
Notes	2003	6.625%	199	200
Debentures	2023	6.65%	198	200
Other notes ⁽¹⁾	2000-2003	6.58% - 6.75%	3	2
Total subordinated debt - Parent			<u>400</u>	<u>402</u>
Total long-term debt - Parent			<u>10,804</u>	<u>6,010</u>
WFC Holdings Corporation				
Senior				
Floating-Rate Medium-Term Notes	1999	Various	—	150
Medium-Term Notes ⁽¹⁾⁽²⁾	2001-2002	6.875% - 10.83%	221	228
Medium-Term Notes	2001-2002	9.04% - 10.9%	15	15
Notes payable by subsidiaries			51	51
Other notes and debentures	2003	8.5%	4	4
Obligations of subsidiaries under capital leases (Note 6)			15	20
Total senior debt - WFC Holdings			<u>306</u>	<u>468</u>
Subordinated				
Floating-Rate Notes ⁽³⁾	2000	Various	118	118
Capital Notes ⁽⁴⁾	1999	8.625%	—	183
Notes	2002	8.75%	195	195
Notes	2002	8.375%	138	138
Notes	2003	6.875%	150	150
Notes	2003	6.125%	249	249
Notes ⁽¹⁾⁽²⁾	2004	9.125%	133	136
Notes ⁽¹⁾⁽²⁾	2004	9.0%	—	127
Notes ⁽¹⁾	2006	6.875%	499	499
Notes ⁽¹⁾	2006	7.125%	299	299
Notes	2008	6.25%	199	199
Medium-Term Notes ⁽¹⁾	2001	9.9% - 11.25%	127	127
Medium-Term Notes	2002	9.375%	30	30
Medium-Term Notes ⁽¹⁾	2013	6.50% - 6.63%	50	50
Total subordinated debt - WFC Holdings			<u>2,187</u>	<u>2,500</u>
Total long-term debt - WFC Holdings			<u>2,493</u>	<u>2,968</u>
Norwest Financial, Inc. and its subsidiaries (NFI)				
Senior				
Notes	2000-2009	5.125% - 8.65%	4,511	4,341
Floating-Rate Notes	2000	Various	550	—
Floating-Rate Medium-Term Notes	2001	Various	21	—
Medium-Term Notes	2000-2008	4.9% - 6.54%	832	932
Total long-term debt - NFI			<u>5,914</u>	<u>5,273</u>
Other consolidated subsidiaries				
Senior				
Federal Home Loan Bank (FHLB) Notes and Advances ⁽⁵⁾	2000-2027	3.15% - 8.38%	345	2,768
Floating-Rate FHLB Advances ⁽⁵⁾	2000-2011	6.391% - 6.47%	3,775	2,655
Notes	2000	12.25%	1	1
Other notes and debentures	2000-2015	3.00% - 10.00%	28	18
Capital lease obligations (Note 6)			15	16
Total long-term debt - other consolidated subsidiaries			<u>4,164</u>	<u>5,458</u>
Total consolidated long-term debt			<u>\$23,375</u>	<u>\$19,709</u>

(1) The Company entered into interest rate swap agreements for substantially all of these Notes, whereby the Company receives fixed-rate interest payments approximately equal to interest on the Notes and makes interest payments based on an average three-month or six-month LIBOR rate.

(2) The interest rate swap agreement for these Notes is callable by the counterparty prior to the maturity of the Notes.

(3) Notes are currently redeemable in whole or in part, at par, or at any time in the event withholding taxes are imposed by the United States.

(4) Mandatory Equity Notes.

(5) The maturities of the FHLB advances are determined quarterly, based on the outstanding balance, the then current LIBOR rate, and the maximum life of the advance. Advances maturing within the next year are expected to be refinanced, extending the maturity of such borrowings beyond one year.

At December 31, 1999, the principal payments, including sinking fund payments, on long-term debt are due as noted in the following table.

(in millions)	Parent	Company
2000	\$ 4,400	\$ 8,988
2001	1,550	2,595
2002	1,275	2,637
2003	390	1,819
2004	1,501	2,615
Thereafter	<u>1,688</u>	<u>4,721</u>
Total	<u>\$10,804</u>	<u>\$23,375</u>

The interest rates on floating-rate notes are determined periodically by formulas based on certain money market rates, subject, on certain notes, to minimum or maximum interest rates.

Certain of the agreements under which debt has been issued contain provisions that may limit the merger or sale of certain subsidiary banks and the issuance of capital stock or convertible securities by certain subsidiary banks. The Company was in compliance with the provisions of those borrowing agreements at December 31, 1999.

NOTE 10 GUARANTEED PREFERRED BENEFICIAL INTERESTS IN COMPANY'S SUBORDINATED DEBENTURES

The Company established special purpose trusts in 1996 and 1997 for the purpose of issuing trust preferred securities. The proceeds from such issuances, together with the proceeds of the related issuances of common securities of the trusts, were invested in junior subordinated deferrable interest debentures (debentures) of WFC Holdings Corporation (WFC Holdings). Concurrent with the issuance of the preferred securities by the trusts, WFC Holdings issued guarantees for the benefit of the security holders. These trust preferred securities provide the Company with a more cost-effective means of obtaining Tier 1 capital for regulatory purposes than if the Company itself were to issue additional preferred stock because the Company is allowed to deduct, for income tax purposes, distributions to the holders of the trust preferred securities. The sole assets of these special purpose trusts are the debentures. WFC Holdings owns all of the common securities of the five trusts. Those common securities and debentures, along with the related

income effects, are eliminated within the consolidated financial statements. The preferred securities issued by the trusts rank senior to the common securities. The obligations of WFC Holdings under the debentures, the indentures, the relevant trust agreements and the guarantees, in the aggregate, constitute a full and unconditional guarantee by WFC Holdings of the obligations of the trusts under the trust preferred securities and rank subordinate and junior in right of payment to all other liabilities of WFC Holdings. The Parent guarantees the obligations of WFC Holdings.

The trust preferred securities are subject to mandatory redemption at the stated maturity date of the debentures, upon repayment of the debentures, or earlier, pursuant to the terms of the Trust Agreement. The table on the next page summarizes the outstanding preferred securities issued by each special purpose trust and the debentures issued by WFC Holdings to each trust as of December 31, 1999:

(in millions) Trust name	Trust preferred securities		Principal balance of debentures	Trust preferred securities and debentures		Interest payable/ distribution dates ⁽¹⁾
	Issuance date	Amount		Stated maturity	Annualized coupon rate	
Wells Fargo Capital A	November 1996	\$ 85	\$ 94	December 1, 2026	8.13%	Semi-annual - June 1 and December 1
Wells Fargo Capital B	November 1996	153	159	December 1, 2026	7.95%	Semi-annual - June 1 and December 1
Wells Fargo Capital C	November 1996	186	194	December 1, 2026	7.73%	Semi-annual - June 1 and December 1
Wells Fargo Capital I	December 1996	212	224	December 15, 2026	7.96%	Semi-annual - June 15 and December 15
Wells Fargo Capital II	January 1997	149 ⁽²⁾	155	January 30, 2027	LIBOR + .5%	Quarterly - January 30, April 30, July 30 and October 30
Total		<u>\$785</u>				

(1) All distributions are cumulative.

(2) Net of discount of \$1 million.

On or after December 2006 for Wells Fargo Capital A, Wells Fargo Capital B, Wells Fargo Capital C and Wells Fargo Capital I and on or after January 2007 for Wells Fargo Capital II, each of the series of trust preferred securities may be redeemed and the corresponding debentures may be prepaid at the option of WFC Holdings, subject to FRB approval, at declining redemption prices. Prior to December 2006 for Wells Fargo Capital A, Wells Fargo Capital B, Wells Fargo Capital C and Wells Fargo Capital I and prior to January 2007 for Wells Fargo Capital II,

the securities may be redeemed at the option of WFC Holdings on the occurrence of certain events that result in a negative tax impact, negative regulatory impact on the trust preferred securities of WFC Holdings or negative legal or regulatory impact on the appropriate special purpose trust which would define it as an investment company. In addition, WFC Holdings has the right to defer payment of interest on the debentures and, therefore, distributions on the trust preferred securities for up to five years.

NOTE 11

PREFERRED STOCK

The Company is authorized to issue 20,000,000 shares of preferred stock and 4,000,000 shares of preference stock, both without par value. All preferred shares outstanding rank senior to common shares both as to dividends and liquidation

preference but have no general voting rights. No preference shares have been issued under this authorization.

The following table is a summary of preferred stock:

	Shares issued and outstanding December 31,		Carrying amount (in millions) December 31,		Adjustable dividend rate		Dividends declared (in millions) Year ended December 31,		
	1999	1998	1999	1998	Minimum	Maximum	1999	1998	1997
Adjustable-Rate Cumulative, Series B (Liquidation preference \$50)	1,500,000	1,500,000	\$ 75	\$ 75	5.5%	10.5%	\$ 4	\$ 4	\$ 4
8-7/8% Cumulative, Series D (Liquidation preference \$500) ⁽¹⁾	—	—	—	—	—	—	—	—	3
9% Cumulative, Series G (Liquidation preference \$200) ⁽²⁾	—	—	—	—	—	—	—	—	5
6.59%/Adjustable-Rate Noncumulative Preferred Stock, Series H (Liquidation preference \$50) ⁽³⁾	4,000,000	4,000,000	200	200	7.0	13.0	13	13	13
Cumulative Tracking ⁽⁴⁾ (Liquidation preference \$200)	—	980,000	—	196	—	—	18	18	18
1999 ESOP Cumulative Convertible (Liquidation preference \$1,000)	22,263	—	22	—	10.30	11.30	—	—	—
1998 ESOP Cumulative Convertible (Liquidation preference \$1,000)	8,386	8,740	8	9	10.75	11.75	—	—	—
1997 ESOP Cumulative Convertible (Liquidation preference \$1,000)	10,839	19,698	11	20	9.50	10.50	—	—	—
1996 ESOP Cumulative Convertible (Liquidation preference \$1,000)	12,011	22,068	12	22	8.50	9.50	—	—	—
1995 ESOP Cumulative Convertible (Liquidation preference \$1,000)	11,990	20,130	12	20	10.0	10.0	—	—	—
ESOP Cumulative Convertible (Liquidation preference \$1,000)	3,732	9,726	4	10	9.0	9.0	—	—	—
Unearned ESOP shares ⁽⁵⁾	—	—	(73)	(84)	—	—	—	—	—
Less: Cumulative Tracking held by subsidiary (Liquidation preference \$200)	—	25,000	—	5	—	—	—	—	—
Total	<u>5,569,221</u>	<u>6,535,362</u>	<u>\$271</u>	<u>\$463</u>			<u>\$35</u>	<u>\$35</u>	<u>\$43</u>

(1) In March 1997, the Company redeemed all \$175 million (350,000 shares) of its Series D preferred stock.

(2) In May 1997, the Company redeemed all \$150 million (750,000 shares) of its Series G preferred stock.

(3) Annualized dividend rate is 6.59% through October 1, 2001, after which the rate will become adjustable, subject to the minimum and maximum rates disclosed.

(4) In December 1999, the Company redeemed all \$196 million (980,000 shares) of its Cumulative Tracking preferred stock.

(5) In accordance with the American Institute of Certified Public Accountants (AICPA) Statement of Position 93-6, *Employers' Accounting for Employee Stock Ownership Plans*, the Company recorded a corresponding charge to unearned ESOP shares in connection with the issuance of the ESOP Preferred Stock. The unearned ESOP shares are reduced as shares of the ESOP Preferred Stock are committed to be released. For information on dividends declared, see Note 12.

ADJUSTABLE-RATE CUMULATIVE PREFERRED STOCK, SERIES B

These shares are redeemable at the option of the Company at \$50 per share plus accrued and unpaid dividends. Dividends are cumulative and payable quarterly on the 15th of February, May, August and November. For each quarterly period, the dividend rate is 76% of the highest of the three-month Treasury bill discount rate, 10-year constant maturity Treasury security yield or 20-year constant maturity Treasury bond yield, but limited to a minimum of 5.5% and a maximum of 10.5% per year. The average dividend rate was 5.5% during 1999, 1998 and 1997.

6.59%/ADJUSTABLE-RATE NONCUMULATIVE PREFERRED STOCK, SERIES H

These shares are redeemable at the option of the Company on or after October 1, 2001 at a price of \$50 per share plus accrued and unpaid dividends. Dividends are noncumulative and payable on the first day of each calendar quarter at an annualized rate of 6.59% through October 1, 2001. The dividend rate after October 1, 2001 will be equal to .44% plus the highest of the Treasury bill discount rate, the 10-year constant maturity rate and the 30-year constant maturity rate, as determined in advance of such dividend period, limited to a minimum of 7% and a maximum of 13%.

ESOP CUMULATIVE CONVERTIBLE PREFERRED STOCK All shares of the Company's 1999, 1998, 1997, 1996 and 1995 ESOP Cumulative Convertible Preferred Stock and ESOP Cumulative Convertible Preferred Stock (collectively, ESOP Preferred Stock) were issued to a trustee acting on behalf of the Wells Fargo & Company 401(k) Plan (formerly known as the Norwest Corporation Savings Investment Plan). Dividends on the ESOP Preferred Stock are cumulative from the date of initial issuance and are payable quarterly at annual rates ranging from 8.50 percent to 11.75 percent, depending upon the year of issuance. Each share of ESOP Preferred Stock released from the unallocated reserve of the Plan is converted into shares of common stock of the Company based on the stated value of the ESOP Preferred Stock and the then current market price of the Company's common stock. The ESOP Preferred Stock is also convertible at the option of the holder at any time, unless previously redeemed. The ESOP Preferred Stock may be redeemed at any time, in whole or in part, at the option of the Company at a redemption price per share equal to the higher of (a) \$1,000 per share plus accrued and unpaid dividends and (b) the fair market value, as defined in the Certificates of Designation of the ESOP Preferred Stock.

NOTE 12

COMMON STOCK AND STOCK PLANS

COMMON STOCK

The table below summarizes common stock reserved, issued and authorized as of December 31, 1999:

	Number of shares
Convertible subordinated debentures and warrants ⁽¹⁾	19,956,960
Dividend reinvestment and common stock purchase plans	1,903,252
Director plans	1,699,335
Employee stock plans	<u>222,736,432</u>
Total shares reserved	246,295,979
Shares issued	1,666,095,265
Shares not reserved	<u>2,087,608,756</u>
Total shares authorized	<u>4,000,000,000</u>

(1) Includes warrants issued by the Company to subsidiaries to purchase shares of the Company's common stock as follows: 8,928,172 shares at \$42.50 per share in 1996 and 11,000,176 shares at \$37.50 per share in 1995.

Each share of the Company's common stock includes one preferred share purchase right. These rights will become exercisable only if a person or group acquires or announces an offer to acquire 15 percent or more of the Company's common stock. When exercisable, each right will entitle the holder to buy one one-thousandth of a share of a new series of junior participating preferred stock at a price of \$160 for each one one-thousandth of a preferred share. In addition, upon the occurrence of certain events, holders of the rights will be entitled to purchase either the Company's common stock or shares in an "acquiring entity" at one-half of the then current market value. The Company will generally be entitled to redeem the rights at one cent per right at any time before they become exercisable. The rights will expire on November 23, 2008, unless extended, previously redeemed or exercised. The Company has reserved 1.7 million shares of preferred stock for issuance upon exercise of the rights.

DIVIDEND REINVESTMENT AND COMMON STOCK PURCHASE PLANS

The Company's dividend reinvestment and common stock direct purchase plans permit participants to purchase at fair market value shares of the Company's common stock by reinvestment of dividends and/or optional cash payments, subject to the terms of the plan.

DIRECTOR PLANS

Under the Company's director plans, non-employee directors receive stock as part of their annual retainer. Another plan provides for annual grants of options to purchase common stock to each non-employee director elected or re-elected at the annual meeting of stockholders. Options granted become exercisable after six months and may be exercised until the tenth anniversary of the date of grant. Compensation expense for the options is measured as the quoted market price of the stock at the date of grant less the exercise price and is accrued over the vesting period.

EMPLOYEE STOCK PLANS

LONG-TERM INCENTIVE PLANS The Company's stock incentive plans provide for awards of incentive and nonqualified stock options, stock appreciation rights, restricted shares, restricted share rights, performance awards and stock awards without restrictions. Employee stock options can be granted with exercise prices at or above the fair market value (as defined in the plan) of the stock at the date of grant and with terms of up to ten years. The options generally become fully exercisable over three years from the date of grant. Except as otherwise permitted under the plan, upon termination of employment for reasons other than retirement, permanent disability or death, the option period is reduced or the options are canceled. Options also may include the right to acquire a "reload" stock option. If an option contains the reload

feature and if a participant pays all or part of the exercise price of the option with shares of stock purchased in the market or held by the participant for at least six months, upon exercise of the option, the participant is granted a reload option to purchase, at the fair market value of the stock as of the date of the reload, the number of shares of stock equal to the sum of the number of shares used in payment of the exercise price and a number of shares with respect to taxes. No compensation expense was recorded for the options granted under the plans, as the exercise price was equal to the quoted market price of the stock at the date of grant. The total number of shares of common stock available for grant under the plans as of December 31, 1999 was 86,332,969.

Holders of restricted shares and restricted share rights are entitled at no cost to the related shares of common stock generally over three to five years after the restricted shares or restricted share rights were granted. Upon grant of the restricted shares or restricted share rights, holders generally are entitled to receive quarterly cash payments equal to the cash dividends that would be paid on common stock equal to the number of restricted shares or restricted share rights. Except in limited circumstances, restricted shares and restricted share rights are canceled upon termination of employment. In 1999, 1998 and 1997, 204,868, 371,560 and 280,020 restricted shares and restricted share rights were granted, respectively, with a weighted-average grant-date fair value of \$43.24, \$37.72 and \$30.89, respectively. As of December 31, 1999, 1998 and 1997, there were 2,423,999, 3,086,500 and 2,084,540 restricted shares and restricted share rights outstanding, respectively. The compensation expense for the restricted shares and restricted share rights equals the quoted market price of the related stock at the date of grant and is accrued over the vesting period. The total compensation expense recognized for the restricted shares and restricted share rights was \$21 million, \$9 million and \$11 million in 1999, 1998 and 1997, respectively.

In connection with various acquisitions and mergers since 1992, the Company converted employee and director stock options of acquired or merged companies into stock options to purchase the Company's common stock based on the original stock option plan and the agreed-upon exchange ratio.

BROAD-BASED PLANS In 1996, the Company adopted the Best Practices *PartnerShares*® Plan, a broad-based employee stock option plan covering full- and part-time employees who were not participants in the long-term incentive plans described above. The total number of shares of common stock issuable under the plan as of December 31, 1999, was 62,000,000, including 23,410,400 shares available for grant. Options granted under the *PartnerShares* Plan have an exercise date that generally is the earlier of five years after the date of grant or when the quoted market price of the stock reaches a predetermined price. Those options generally expire ten years after the date of grant. No compensation expense has been recorded for the outstanding options, as the exercise prices were equal to or higher than the quoted market price of the Company's common stock at the respective dates of grant.

The following table summarizes the Company's stock option activity and related information for the three years ended December 31, 1999:

	Director Plans		Long-Term Incentive Plans		Broad-Based Plans ⁽⁵⁾	
	Number	Weighted-average exercise price	Number	Weighted-average exercise price	Number	Weighted-average exercise price
Options outstanding as of December 31, 1996	<u>444,620</u>	\$13.01	<u>49,102,252</u>	\$12.59	<u>10,774,060</u>	\$17.42
1997:						
Granted	103,890 ⁽¹⁾	23.49	29,985,212 ⁽²⁾⁽³⁾	30.31	23,678,530 ⁽⁴⁾	30.11
Canceled	—	—	(1,356,735)	22.89	(3,935,110)	17.93
Exercised	<u>(29,230)</u>	9.87	<u>(14,801,394)</u>	10.30	<u>(5,275,570)</u>	17.57
Options outstanding as of December 31, 1997	<u>519,280</u>	15.28	<u>62,929,335</u>	21.34	<u>25,241,910</u>	29.21
1998:						
Granted	84,860 ⁽¹⁾	34.38	9,695,931 ⁽²⁾⁽³⁾	36.25	21,295,860 ⁽⁴⁾	37.29
Canceled	—	—	(1,521,074)	27.08	(2,866,310)	31.22
Exercised	<u>(102,610)</u>	11.72	<u>(10,330,783)</u>	15.50	<u>(1,865,480)</u>	21.40
Options outstanding as of December 31, 1998	<u>501,530</u>	19.24	<u>60,773,409</u>	24.58	<u>41,805,980</u>	33.60
1999:						
Granted	38,253 ⁽¹⁾	42.60	16,817,089 ⁽²⁾⁽³⁾	38.61	—	—
Canceled	—	—	(2,158,873)	27.70	(7,836,842)	34.76
Exercised	<u>(75,390)</u>	16.32	<u>(12,360,988)</u>	19.77	<u>(1,454,838)</u>	24.40
Options outstanding as of December 31, 1999	<u>464,393</u>	<u>\$21.64</u>	<u>63,070,637</u>	<u>\$29.15</u>	<u>32,514,300</u>	<u>\$33.72</u>
Outstanding options exercisable as of:						
December 31, 1997	417,920	\$13.23	33,930,575	\$14.12	3,315,200	\$16.90
December 31, 1998	434,020	17.29	35,990,530	19.57	3,255,200	22.05
December 31, 1999	463,300	21.60	37,361,257	24.92	1,646,500	17.64

(1) The weighted-average per share fair value of options granted was \$12.09, \$11.85 and \$10.26 for 1999, 1998 and 1997, respectively.

(2) The weighted-average per share fair value of options granted was \$9.50, \$7.40 and \$5.08 for 1999, 1998 and 1997, respectively.

(3) Includes 2,285,910, 2,094,111 and 2,687,762 reload grants at December 31, 1999, 1998 and 1997, respectively.

(4) The weighted-average per share fair value of options granted was \$5.42 and \$4.92 for 1998 and 1997, respectively.

(5) Activity for broad-based plans in 1999, 1998 and 1997 includes the options related to the Employee Stock Purchase Plan, which was discontinued in 1999.

The following table is a summary of selected information for the Company's stock option plans described on the preceding page:

	December 31, 1999		
	Weighted-average remaining contractual life (in yrs.)	Number	Weighted-average exercise price
RANGE OF EXERCISE PRICES			
Director Plans			
\$.10			
Options outstanding/exercisable	2.9	19,910	\$.10
\$4.46-\$7.83			
Options outstanding/exercisable	1.8	50,000	6.94
\$7.84-\$13.48			
Options outstanding/exercisable	3.0	54,890	10.62
\$13.49-\$16.00			
Options outstanding/exercisable	5.2	89,210	15.07
\$16.01-\$25.04			
Options outstanding/exercisable	6.6	82,510	23.70
\$25.05-\$38.29			
Options outstanding/exercisable	7.8	129,620	32.31
\$38.30-\$51.00			
Options outstanding	9.3	38,253	42.60
Options exercisable		37,160	42.69
Long-Term Incentive Plans			
\$2.24-\$3.36			
Options outstanding/exercisable	1.5	73,330	2.49
\$3.37-\$5.06			
Options outstanding/exercisable	6.5	117,564	4.36
\$5.07-\$7.60			
Options outstanding	2.1	2,124,574	7.30
Options exercisable		2,115,774	7.30
\$7.61-\$11.41			
Options outstanding/exercisable	2.9	1,895,482	10.61
\$11.42-\$17.13			
Options outstanding	4.1	7,959,825	13.90
Options exercisable		7,791,391	13.86
\$17.14-\$25.71			
Options outstanding	5.1	3,532,869	20.36
Options exercisable		3,510,439	20.34
\$25.72-\$38.58			
Options outstanding	8.0	43,369,877	33.42
Options exercisable		18,949,401	31.30
\$38.59-\$57.89			
Options outstanding	7.5	3,997,116	42.66
Options exercisable		2,907,876	42.09
Broad-Based Plans			
\$16.56-\$24.84			
Options outstanding/exercisable	6.6	1,542,500	16.56
\$24.85-\$37.81			
Options outstanding	8.3	30,971,800	34.58
Options exercisable		104,000	33.61

In accordance with FAS 123, *Accounting for Stock-Based Compensation*, the Company has elected to continue applying the provisions of Accounting Principles Board Opinion 25, *Accounting for Stock Issued to Employees*, in accounting for the stock plans described above. Had compensation cost for those stock plans been determined based on the (optional) fair value method established by FAS 123, the Company's net income and earnings per common share would have been reduced to the pro forma amounts indicated below.

(in millions, except per common share amounts)	Year ended December 31,		
	1999	1998	1997
Net income			
As reported	\$3,747	\$1,950	\$2,499
Pro forma ⁽¹⁾	3,650	1,867	2,448
Earnings per common share			
As reported	\$ 2.26	\$ 1.18	\$ 1.50
Pro forma ⁽¹⁾	2.20	1.13	1.43
Diluted earnings per common share			
As reported	\$ 2.23	\$ 1.17	\$ 1.48
Pro forma ⁽¹⁾	2.17	1.12	1.42

(1) The pro forma amounts noted above only reflect the effects of stock-based compensation grants made after 1994. Because stock options may be granted each year and generally vest over three years, these pro forma amounts may not reflect the full effect of applying the (optional) fair value method established by FAS 123 that would be expected if all outstanding stock option grants were accounted for under this method.

The fair value of each option grant is estimated based on the date of grant using an option-pricing model. The following weighted-average assumptions were used in 1999, 1998 and 1997: expected dividend yield ranging from 1.4% to 2.2%; expected volatility ranging from 20.0% to 29.0%; risk-free interest rates ranging from 5.3% to 7.8% and expected life ranging from 1 to 5.4 years.

EMPLOYEE STOCK OWNERSHIP PLAN The 401(k) Plan (formerly known as the Savings Investment Plan (SIP)), is a defined contribution employee stock ownership plan (ESOP) under which the 401(k) Plan may borrow money to purchase the Company's common or preferred stock. Beginning in 1994, the Company has loaned money to the 401(k) Plan which has been used to purchase shares of the Company's ESOP Preferred Stock. As ESOP Preferred Stock is released and converted into common shares, compensation expense is recorded equal to the current market price of the common shares. Dividends on the common shares allocated as a result of the release and conversion of the ESOP Preferred Stock are recorded as a reduction of retained earnings and the shares are considered outstanding for purposes of earnings per share computations. Dividends on the unallocated ESOP Preferred Stock are not recorded as a reduction of retained earnings, and the shares are not considered to be common stock equivalents for purposes of earnings per share computations. Loan principal and interest payments are made from the Company's contributions to the 401(k) Plan, along with dividends paid on the ESOP Preferred Stock. With each principal and interest payment, a portion of the ESOP Preferred Stock is released and, after conversion of the ESOP Preferred Stock into common shares, allocated to the 401(k) Plan participants.

In 1989, the Company loaned money to the 401(k) Plan which was used to purchase shares of the Company's common stock (the 1989 ESOP shares). The Company accounts for the 1989 ESOP shares in accordance with AICPA Statement of Position 76-3, *Accounting Practices for Certain Employee Stock Ownership Plans*. Accordingly, the Company's ESOP loan to the 401(k) Plan related to the purchase of the 1989 ESOP shares was recorded as a reduction of stockholders' equity, and compensation expense based on the cost of the shares was recorded as shares were released and allocated to participants' accounts. The loan from the Company to the

401(k) Plan was repaid in 1999. Interest income on all of these loans was \$.1 million in 1999 and \$1 million in 1998 and 1997 and was recorded as a reduction in employee benefits expense. The 1989 ESOP shares are considered outstanding for purposes of earnings per share computations and dividends on the shares are recorded as a reduction to retained earnings.

The Company issued Series A and B ESOP Notes in the market place in connection with the purchase of common shares. Series B ESOP matured April 26, 1999 and Series A matured in 1996. Total interest expense on the Series B ESOP Notes was \$.1 million in 1999 and \$1 million in 1998 and 1997. Total dividends paid to the 401(k) Plan on ESOP shares were as follows:

(in millions)	Year ended December 31,		
	1999	1998	1997
ESOP Preferred Stock:			
Common dividends	\$ 7	\$ 6	\$ 4
Preferred dividends	11	9	4
1989 ESOP shares:			
Common dividends	11	11	11
Total	<u>\$29</u>	<u>\$26</u>	<u>\$19</u>

The ESOP shares as of December 31, 1999, 1998 and 1997 were as follows:

	December 31,		
	1999	1998	1997
ESOP Preferred Stock:			
Allocated shares (common)	10,784,773	8,592,898	7,793,681
Unreleased shares (preferred)	69,221	80,362	76,405
1989 ESOP shares:			
Allocated shares	13,016,033	15,018,861	15,555,673
Unreleased shares	76,070	320,285	1,053,925
Fair value of unearned ESOP shares (in millions)	\$69	\$80	\$76

NOTE 13

EMPLOYEE BENEFITS AND OTHER EXPENSES

EMPLOYEE BENEFITS

The Company provides a noncontributory defined benefit retirement cash balance plan (the Cash Balance Plan) that covers eligible employees. On July 1, 1999, the Norwest Corporation Pension Plan was converted to the Cash Balance Plan. At the same time, the First Interstate Bancorp Retirement Plan was merged into the Cash Balance Plan.

Under the Cash Balance Plan, eligible employees' Cash Balance Plan accounts receive a compensation credit based on a certain percentage of their certified compensation. The compensation credit percentage is based on age and years of service. In addition, participants receive investment credits on their accumulated balances. Employees become vested in their Cash Balance Plan accounts after completion of five years of vesting service. Pension benefits accrued prior to the conversion to the Cash Balance Plan are guaranteed. In addition, certain employees are eligible for a special transition benefit.

Effective July 1, 1999, the SIP was renamed the Wells Fargo & Company 401(k) Plan (the 401(k) Plan) and the former Wells Fargo Tax Advantage and Retirement Plan merged into the 401(k) Plan. Under the 401(k) Plan, eligible employees who have completed one month of service are eligible to contribute up to 18% of their pretax certified compensation, although a lower limit may be applied to certain employees in order to maintain the qualified status of the 401(k) Plan. Eligible employees who complete one year of service are eligible for matching company contributions, which are generally a dollar for dollar match up to 6% of an employee's certified compensation. The Company's matching contributions are generally subject to a four-year vesting schedule. As of June 30, 1999, eligible employees from the former Wells Fargo were 100% vested in the matching contributions under the 401(k) Plan.

The Company provides health care and life insurance benefits for certain retired employees and reserves the right to terminate or amend any of the benefits described above at any time.

The following table shows the changes in the benefit obligation and the fair value of plan assets during 1999 and 1998 and the amounts included in the Company's Consolidated Balance Sheet as of December 31, 1999 and 1998 for the Company's defined benefit pension and other postretirement benefit plans:

(in millions)	1999		December 31, 1998	
	Pension benefits	Other benefits	Pension benefits	Other benefits
Change in benefit obligation				
Benefit obligation at beginning of year	\$2,487	\$536	\$2,141	\$ 457
Service cost	110	24	67	18
Interest cost	132	34	151	33
Plan participants' contributions	—	6	—	5
Amendments	17	(3)	1	—
Plan mergers	7	—	—	—
Actuarial loss	(297)	(6)	231	58
Acquisitions	—	—	5	—
Benefits paid	(105)	(37)	(109)	(35)
Benefit obligation at end of year	<u>\$2,351</u>	<u>\$554</u>	<u>\$2,487</u>	<u>\$ 536</u>
Change in plan assets				
Fair value of plan assets at beginning of year	\$2,548	\$218	\$2,521	\$ 140
Actual return on plan assets	224	5	115	12
Plan mergers	12	—	—	—
Acquisitions	—	—	4	—
Employer contribution	24	17	17	96
Plan participants' contributions	—	6	—	5
Benefits paid	(105)	(37)	(109)	(35)
Fair value of plan assets at end of year	<u>\$2,703</u>	<u>\$209</u>	<u>\$2,548</u>	<u>\$ 218</u>
Funded status	\$ 352	\$(345)	\$ 61	\$(318)
Unrecognized net actuarial gain	(382)	—	(48)	(5)
Unrecognized net transition asset	(2)	1	(7)	—
Unrecognized prior service cost	17	(2)	7	1
Prepaid (accrued) benefit cost	<u>\$ (15)</u>	<u>\$(346)</u>	<u>\$ 13</u>	<u>\$(322)</u>

The weighted-average assumptions used in calculating the amounts above were:

	Year ended December 31,					
	1999		1998		1997	
	Pension benefits	Other benefits	Pension benefits	Other benefits	Pension benefits	Other benefits
Discount rate	7.5%	7.5%	6.5%	6.5%	7.0%	6.9-7.0%
Expected return on plan assets	9.0%	9.0%	8.5-9.0%	9.0%	8.5-9.0%	5.4%
Rate of compensation increase	5.0%	—%	5.0%	—%	5.0%	—%

The following table sets forth the components of net periodic benefit cost for 1999, 1998 and 1997:

(in millions)	Year ended December 31,					
	1999		1998		1997	
	Pension benefits	Other benefits	Pension benefits	Other benefits	Pension benefits	Other benefits
Service cost	\$110	\$24	\$ 67	\$ 18	\$ 49	\$ 14
Interest cost	132	34	151	33	141	29
Expected return on plan assets	(186)	(6)	(205)	(11)	(174)	(10)
Recognized net actuarial (gain) loss ⁽¹⁾	(3)	(8)	21	(1)	13	(9)
Amortization of prior service cost	2	—	1	—	1	—
Amortization of unrecognized transition asset	(2)	—	(2)	—	(2)	—
Net periodic benefit cost	<u>\$ 53</u>	<u>\$44</u>	<u>\$ 33</u>	<u>\$ 39</u>	<u>\$ 28</u>	<u>\$ 24</u>

(1) Net actuarial (gain) loss is generally amortized over five years.

Accounting for the postretirement health care plans uses a health care cost trend rate to recognize the effect of expected changes in future health care costs due to medical inflation, utilization changes, technological changes, regulatory requirements and Medicare cost shifting. Average annual increases of 8.5% to 9.3% for HMOs and 8.5% for all other types of coverage in the per capita cost of covered health care benefits were assumed for 2000. By 2006 and thereafter, rates were assumed at 5.5% for HMOs and for all other types of coverage. Increasing the assumed health care trend by one percentage point in each year would increase the benefit obligation as of December 31, 1999 by \$34.0 million and the aggregate of the interest cost and service cost components of the net periodic benefit cost for 1999 by \$2.6 million. Decreasing the assumed health care trend by one percentage point in each year would decrease the benefit obligation as of December 31, 1999 by \$31.7 million and the aggregate of the interest cost and service cost components of the net periodic benefit cost for 1999 by \$2.4 million.

Expenses for defined contribution retirement plans were \$150 million, \$174 million and \$174 million in 1999, 1998 and 1997, respectively.

OTHER EXPENSES

The table below shows expenses which exceeded 1% of total interest income and noninterest income and which are not otherwise shown separately in the financial statements or notes thereto.

(in millions)	Year ended December 31,		
	1999	1998	1997
Contract services	\$465	\$342	\$271
Outside professional services	372	391	262
Outside data processing	279	250	217
Telecommunications	261	252	241
Travel and entertainment	249	212	188
Advertising and promotion	238	237	202
Postage	223	228	210
Donations	48	257	44

NOTE 14 INCOME TAXES

The following is a summary of the components of income tax expense applicable to income before income taxes:

(in millions)	Year ended December 31,		
	1999	1998	1997
Current:			
Federal	\$ 599	\$1,201	\$1,242
State and local	43	272	246
Foreign	53	(1)	33
	<u>695</u>	<u>1,472</u>	<u>1,521</u>
Deferred:			
Federal	1,324	(82)	147
State and local	182	(32)	37
Foreign	—	(15)	(11)
	<u>1,506</u>	<u>(129)</u>	<u>173</u>
Total	<u>\$2,201</u>	<u>\$1,343</u>	<u>\$1,694</u>

The Company's tax benefit related to the exercise of employee stock options that were allocated to stockholders' equity was \$79 million, \$90 million and \$93 million for 1999, 1998 and 1997, respectively.

The Company had a net deferred tax liability of \$1,943 million and \$177 million at December 31, 1999 and 1998, respectively. The tax effects of temporary differences that gave rise to significant portions of deferred tax assets and liabilities at December 31, 1999 and 1998 are presented below:

(in millions)	Year ended December 31,	
	1999	1998
Deferred Tax Assets		
Allowance for loan losses	\$ 1,311	\$1,143
Net tax-deferred expenses	788	1,325
Other	<u>126</u>	<u>271</u>
Total deferred tax assets	<u>2,225</u>	<u>2,739</u>
Deferred Tax Liabilities		
Core deposit intangible	428	498
Leasing	976	878
Mark to market	800	201
Mortgage servicing	1,237	871
FAS 115 adjustment	447	278
Other	<u>280</u>	<u>190</u>
Total deferred tax liabilities	<u>4,168</u>	<u>2,916</u>
Net Deferred Tax Liability	<u><u>\$(1,943)</u></u>	<u><u>\$ (177)</u></u>

The Company has determined that it is not required to establish a valuation reserve for any of the deferred tax assets since it is more likely than not that these assets will be realized principally through carryback to taxable income in prior years, and future reversals of existing taxable temporary differences, and, to a lesser extent, future taxable income and tax planning strategies. The Company's conclusion that it is "more likely than not" that the deferred tax assets will be realized is based on federal taxable income in excess of \$3.5 billion in the carryback period, substantial state taxable income in the carryback period, as well as a history of growth in earnings and the prospects for continued growth.

The deferred tax liability related to unrealized gains and losses on securities available for sale had no impact on 1999, 1998 or 1997 income tax expense as these gains and losses, net of taxes, were recorded in cumulative other comprehensive income.

The following table is a reconciliation of the statutory federal income tax expense and rate to the effective income tax expense and rate:

(in millions)	Year ended December 31,					
	1999		1998		1997	
	Amount	%	Amount	%	Amount	%
Statutory federal income tax expense and rate	\$2,082	35.0%	\$1,153	35.0%	\$1,468	35.0%
Change in tax rate resulting from:						
State and local taxes on income, net of federal income tax benefit	146	2.5	156	4.7	162	3.8
Amortization of goodwill not deductible for tax return purposes	128	2.1	125	3.8	151	3.6
Tax exempt income	(65)	(1.1)	(57)	(1.7)	(37)	(.9)
Other	(90)	(1.5)	(34)	(1.0)	(50)	(1.1)
Effective income tax expense and rate	<u>\$2,201</u>	<u>37.0%</u>	<u>\$1,343</u>	<u>40.8%</u>	<u>\$1,694</u>	<u>40.4%</u>

The Company has not recognized a federal deferred tax liability of \$36 million on \$102 million of undistributed earnings of a foreign subsidiary because such earnings are indefinitely reinvested in the subsidiary and are not taxable under current law. A deferred tax liability would be recognized to the extent the Company changed its intent to not

indefinitely reinvest a portion or all of such undistributed earnings. In addition, a current tax liability would be recognized if the Company recovered those undistributed earnings in a taxable manner, such as through the receipt of dividends or sale of the entity, or if the tax law changed.

NOTE 15 EARNINGS PER COMMON SHARE

The table below shows dual presentation of earnings per common share and diluted earnings per common share and

a reconciliation of the numerator and denominator of both earnings per common share calculations.

(in millions, except per share amounts)	Year ended December 31,		
	1999	1998	1997
Net income	\$ 3,747	\$ 1,950	\$ 2,499
Less: Preferred stock dividends	<u>35</u>	<u>35</u>	<u>43</u>
Net income applicable to common stock	<u>\$ 3,712</u>	<u>\$ 1,915</u>	<u>\$ 2,456</u>
EARNINGS PER COMMON SHARE			
Net income applicable to common stock (numerator)	<u>\$ 3,712</u>	<u>\$ 1,915</u>	<u>\$ 2,456</u>
Average common shares outstanding (denominator)	<u>1,645.6</u>	<u>1,621.5</u>	<u>1,634.6</u>
Per share	<u>\$ 2.26</u>	<u>\$ 1.18</u>	<u>\$ 1.50</u>
DILUTED EARNINGS PER COMMON SHARE			
Net income applicable to common stock (numerator)	<u>\$ 3,712</u>	<u>\$ 1,915</u>	<u>\$ 2,456</u>
Average common shares outstanding	1,645.6	1,621.5	1,634.6
Add: Stock options	18.0	18.3	20.6
Restricted share rights	<u>1.6</u>	<u>2.0</u>	<u>2.6</u>
Diluted average common shares outstanding (denominator)	<u>1,665.2</u>	<u>1,641.8</u>	<u>1,657.8</u>
Per share	<u>\$ 2.23</u>	<u>\$ 1.17</u>	<u>\$ 1.48</u>

NOTE 16

COMPREHENSIVE INCOME

The following table presents the components of other comprehensive income and the related tax effect allocated to each component:

(in millions)	Before tax amount	Tax effect	Net of tax
1997:			
Translation adjustments	\$ 1	\$ —	\$ 1
Net unrealized gains on securities available for sale arising during the year	339	133	206
Reclassification of net losses (gains) on securities available for sale included in net income	(99)	(40)	(59)
Net unrealized gains arising during the year	240	93	147
Other comprehensive income	<u>\$241</u>	<u>\$ 93</u>	<u>\$148</u>
1998:			
Translation adjustments	\$ (6)	\$ (2)	\$ (4)
Net unrealized gains on securities available for sale arising during the year	172	68	104
Reclassification of net losses (gains) on securities available for sale included in net income	(169)	(68)	(101)
Net unrealized gains arising during the year	3	—	3
Other comprehensive income	<u>\$ (3)</u>	<u>\$ (2)</u>	<u>\$ (1)</u>
1999:			
Translation adjustments	\$ 6	\$ 2	\$ 4
Net unrealized gains on securities available for sale arising during the year	445	169	276
Reclassification of net losses (gains) on securities available for sale included in net income	241	92	149
Net unrealized gains arising during the year	686	261	425
Other comprehensive income	<u>\$692</u>	<u>\$263</u>	<u>\$429</u>

The following table presents cumulative other comprehensive income balances:

(in millions)	Translation adjustments	Net unrealized gains on securities	Cumulative other comprehensive income
Balance, December 31, 1996	<u>\$(11)</u>	<u>\$327</u>	<u>\$316</u>
Net change	1	147	148
Balance, December 31, 1997	<u>(10)</u>	<u>474</u>	<u>464</u>
Net change	(4)	3	(1)
Balance, December 31, 1998	<u>(14)</u>	<u>477</u>	<u>463</u>
Net change	4	425	429
Balance, December 31, 1999	<u>\$(10)</u>	<u>\$902</u>	<u>\$892</u>

NOTE 17 OPERATING SEGMENTS

The Company has identified four lines of business for the purposes of management reporting: Community Banking, Wholesale Banking, Norwest Mortgage and Norwest Financial. The results are determined based on the Company's management accounting process, which assigns balance sheet and income statement items to each responsible operating segment. This process is dynamic and somewhat subjective. Unlike financial accounting, there is no comprehensive, authoritative guidance for management accounting equivalent to generally accepted accounting principles. The management accounting process measures the performance of the operating segments based on the management structure of the Company and is not necessarily comparable with similar information for any other financial institution. The Company's operating segments are defined by product type and customer segments. Changes in management structure and/or the allocation process may result in changes in allocations, transfers and assignments. In that case, results for prior periods would be (and have been) restated to allow comparability.

The Community Banking Group offers a complete line of diversified financial products and services to individual consumers and small businesses with annual sales up to \$10 million in which the owner is also the principal financial decision maker. Community Banking also offers investment management and other services to retail customers and high net worth individuals, insurance and securities brokerage through affiliates and venture capital financing. This includes *Wells Fargo FundsSM*, a family of mutual funds, as well as personal trust, employee benefit trust and agency assets. Loan products include lines of credit, equipment and transportation (auto, recreational vehicle, marine) loans as well as equity lines and loans. Other credit products and financial services available to small businesses and their owners include receivables and inventory financing, equipment leases, real estate financing, Small Business Administration financing, cash management, payroll services, retirement plans, medical savings accounts and credit and debit card processing. Consumer and business deposit products include checking accounts, savings deposits, market rate accounts, Individual Retirement Accounts (IRAs) and time deposits.

Community Banking provides access to customers through a wide range of channels, which encompass a network of traditional banking stores, banking centers, in-store banking centers, business centers and ATMs. Additionally, 24-hour telephone service is provided by *PhoneBankSM* centers and the National Business Banking Center. Online banking services include the Wells Fargo Internet Services Group and *Business Gateway[®]*, a personal computer banking service exclusively for the small business customer.

The Wholesale Banking Group serves businesses with annual sales in excess of \$10 million and maintains relationships with major corporations throughout the United States. Wholesale Banking provides a complete line of commercial and corporate banking services. These include traditional commercial loans and lines of credit, letters of credit, asset-based lending, equipment leasing, international trade facilities, foreign exchange services, cash management, investment management and electronic products. Wholesale Banking includes the majority ownership interest in the Wells Fargo HSBC Trade Bank, which provides trade financing, letters of credit and collection services and is sometimes supported by the Export-Import Bank of the United States (a public agency of the United States offering export finance support for American-made products). Wholesale Banking also supports the commercial real estate market with products and services such as construction loans for commercial and residential development, land acquisition and development loans, secured and unsecured lines of credit, interim financing arrangements for completed structures, rehabilitation loans, affordable housing loans and letters of credit. Secondary market services are provided through the Capital Markets Group. Its business includes senior loan financing, mezzanine financing, financing for leveraged transactions, purchasing distressed real estate loans and high yield debt, origination of permanent loans for securitization, loan syndications, real estate brokerage services and commercial real estate loan servicing.

Norwest Mortgage's activities include the origination and purchase of residential mortgage loans for sale to various investors as well as providing servicing of mortgage loans for others.

Norwest Financial includes consumer finance and auto finance operations. Consumer finance operations make direct loans to consumers and purchase sales finance contracts from retail merchants from offices throughout the United States and Canada and in the Caribbean and Latin America. Automobile finance operations specialize in purchasing sales finance contracts directly from automobile dealers and making loans secured by automobiles in the United States and Puerto Rico. Credit cards are issued to consumer finance customers through

two credit card banks. Norwest Financial also provides lease and other commercial financing and provides information services to the consumer finance industry.

The Reconciliation Column includes goodwill and non-qualifying CDI, the net impact of transfer pricing loan and deposit balances, the cost of external debt, and any residual effects of unallocated systems and other support groups. It also includes the impact of asset/liability strategies the Company has put in place to manage interest rate sensitivity at the consolidated level.

(income/expense in millions, average balances in billions)	Community Banking	Wholesale Banking	Norwest Mortgage	Norwest Financial	Reconciliation Column ⁽⁴⁾	Consolidated Company
1999						
Net interest income ⁽¹⁾	\$6,516	\$1,429	\$ 168	\$1,314	\$ (72)	\$ 9,355
Provision for loan losses	651	103	4	288	(1)	1,045
Noninterest income	4,587	1,172	1,240	311	110	7,420
Noninterest expense	<u>6,120</u>	<u>1,142</u>	<u>958</u>	<u>947</u>	<u>615</u>	<u>9,782</u>
Income (loss) before income tax expense (benefit)	4,332	1,356	446	390	(576)	5,948
Income tax expense (benefit) ⁽²⁾	<u>1,468</u>	<u>506</u>	<u>169</u>	<u>143</u>	<u>(85)</u>	<u>2,201</u>
Net income (loss)	<u>\$2,864</u>	<u>\$ 850</u>	<u>\$ 277</u>	<u>\$ 247</u>	<u>\$(491)</u>	<u>\$ 3,747</u>
1998						
Net interest income ⁽¹⁾	\$6,155	\$1,345	\$ 254	\$1,303	\$ (67)	\$ 8,990
Provision for loan losses	756	33	4	752	—	1,545
Noninterest income	3,883	1,015	1,078	303	148	6,427
Noninterest expense	<u>7,091</u>	<u>1,026</u>	<u>986</u>	<u>878</u>	<u>598</u>	<u>10,579</u>
Income (loss) before income tax expense (benefit)	2,191	1,301	342	(24)	(517)	3,293
Income tax expense (benefit) ⁽²⁾	<u>815</u>	<u>521</u>	<u>125</u>	<u>(5)</u>	<u>(113)</u>	<u>1,343</u>
Net income (loss)	<u>\$1,376</u>	<u>\$ 780</u>	<u>\$ 217</u>	<u>\$ (19)</u>	<u>\$(404)</u>	<u>\$ 1,950</u>
1997						
Net interest income ⁽¹⁾	\$6,193	\$1,281	\$ 69	\$1,167	\$ (62)	\$ 8,648
Provision for loan losses	972	(6)	18	332	(176)	1,140
Noninterest income	3,135	1,086	961	303	190	5,675
Noninterest expense	<u>5,792</u>	<u>1,055</u>	<u>774</u>	<u>758</u>	<u>611</u>	<u>8,990</u>
Income (loss) before income tax expense (benefit)	2,564	1,318	238	380	(307)	4,193
Income tax expense (benefit) ⁽²⁾	<u>966</u>	<u>534</u>	<u>87</u>	<u>138</u>	<u>(31)</u>	<u>1,694</u>
Net income (loss)	<u>\$1,598</u>	<u>\$ 784</u>	<u>\$ 151</u>	<u>\$ 242</u>	<u>\$(276)</u>	<u>\$ 2,499</u>
1999						
Average loans	\$ 66	\$ 34	\$ 1	\$ 10	\$ —	\$ 111
Average assets	118	42	23	11	9	203
Average core deposits	114	9	5	—	(1)	127
Return on equity ⁽³⁾	21%	24%	20%	15%	— %	18%
1998						
Average loans	\$ 64	\$ 32	\$ 1	\$ 9	\$ —	\$ 106
Average assets	107	38	23	11	9	188
Average core deposits	110	9	5	—	—	124
Return on equity ⁽³⁾	11%	23%	16%	—%	—%	10%

(1) Net interest income is the primary source of income for most of the operating segments. Net interest income is the difference between actual interest earned on assets (and interest paid on liabilities) owned by a group and a funding charge (and credit) based on the Company's cost of funds. Community Banking and Wholesale Banking are charged a cost to fund any assets (e.g., loans) and are paid a funding credit for any funds provided (e.g., deposits). The interest spread is the difference between the interest rate earned on an asset or paid on a liability and the Company's cost of funds rate. (Norwest Mortgage's net interest income was composed of interest revenue of \$902 million, \$1,023 million and \$549 million for 1999, 1998 and 1997, respectively, and interest expense of \$734 million, \$769 million and \$480 million for 1999, 1998 and 1997, respectively.)

(2) Taxes vary by geographic concentration of revenue generation. Taxes as presented are also higher than the consolidated Company's effective tax rate as a result of taxable-equivalent adjustments that primarily relate to income on certain loans and securities that is exempt from federal and applicable state income taxes. The offsets for these adjustments are found in the reconciliation column.

(3) Equity is allocated to the operating segments based on an assessment of the inherent risk associated with each business so that the returns on allocated equity are on a risk-adjusted basis and comparable across operating segments.

(4) The material items in the reconciliation column related to revenue (i.e., net interest income plus noninterest income) and net income consist of Treasury activities and unallocated items. Revenue includes Treasury activities of \$83 million, \$125 million and \$153 million; and unallocated items of \$(45) million, \$(44) million, and \$(25) million for 1999, 1998 and 1997, respectively. Net income includes Treasury activities of \$50 million, \$72 million and \$88 million; and unallocated items of \$(541) million, \$(476) million and \$(364) million for 1999, 1998 and 1997, respectively. The material items in the reconciliation column related to noninterest expense include goodwill and nonqualifying CDI amortization of \$499 million, \$522 million and \$531 million for 1999, 1998 and 1997, respectively. The material items in the reconciliation column related to average assets include goodwill and nonqualifying CDI of \$8 billion for both 1999 and 1998.

NOTE 18

MORTGAGE BANKING ACTIVITIES

Mortgage banking activities include Norwest Mortgage and mortgage banking activities in other operating segments. The following table presents the components of mortgage banking noninterest income:

(in millions)	Year ended December 31,		
	1999	1998	1997
Origination and other closing fees	\$ 380	\$ 530	\$314
Servicing fees, net of amortization	410	19	324
Net gains (losses) on sales of servicing rights	—	16	(8)
Net gains on sales of mortgages	221	296	120
All other	228	245	177
Total mortgage banking noninterest income	<u>\$1,239</u>	<u>\$1,106</u>	<u>\$927</u>

Mortgage loans serviced for others are not included in the Company's Consolidated Balance Sheet. The outstanding balances of serviced loans were \$290 billion, \$250 billion and \$230 billion at December 31, 1999, 1998 and 1997, respectively.

The following table summarizes the changes in capitalized mortgage loan servicing rights:

(in millions)	Year ended December 31,		
	1999	1998	1997
Balance, beginning of year	\$3,144	\$3,112	\$2,957
Originations	889	756	361
Purchases	695	720	462
Sales	—	(346)	(34)
Amortization	(691)	(816)	(513)
Other (principally hedge activity)	446	(282)	(121)
	<u>4,483</u>	<u>3,144</u>	<u>3,112</u>
Less valuation allowance	—	64	64
Balance, end of year	<u>\$4,483</u>	<u>\$3,080</u>	<u>\$3,048</u>

The fair value of capitalized mortgage servicing rights included in the consolidated balance sheet at December 31, 1999 was approximately \$5 billion, calculated using discount rates ranging from 500 to 700 basis points over the ten-year U.S. Treasury rate.

NOTE 19

PARENT COMPANY

Condensed financial information of the Parent follows. For information regarding the Parent's long-term debt, see Note 9.

CONDENSED STATEMENT OF INCOME

(in millions)	Year ended December 31,		
	1999	1998	1997
INCOME			
Dividends from subsidiaries:			
Bank	\$2,270	\$1,354	\$1,282
Nonbank	153	403	343
Interest income from subsidiaries	616	459	388
Service fees from subsidiaries	104	127	118
Noninterest income	95	21	152
Total income	<u>3,238</u>	<u>2,364</u>	<u>2,283</u>
EXPENSE			
Interest on:			
Short-term borrowings	350	275	153
Long-term debt	514	341	364
Noninterest expense	380	379	177
Total expense	<u>1,244</u>	<u>995</u>	<u>694</u>
Income before income tax benefit and undistributed income of subsidiaries	1,994	1,369	1,589
Income tax (expense) benefit	(161)	105	16
Equity in undistributed income of subsidiaries	<u>1,914</u>	<u>476</u>	<u>894</u>
NET INCOME	<u>\$3,747</u>	<u>\$1,950</u>	<u>\$2,499</u>

CONDENSED BALANCE SHEET

(in millions)	December 31,	
	1999	1998
ASSETS		
Cash and noninterest-bearing balances due from:		
Subsidiary banks	\$ 83	\$ —
Non-affiliates	9	5
Interest-bearing balances due from subsidiary banks	6,028	678
Securities available for sale	1,765	1,541
Loans and advances to subsidiaries:		
Bank	—	10
Nonbank	8,114	9,431
Investment in subsidiaries ⁽¹⁾ :		
Bank	19,969	19,642
Nonbank	4,922	1,862
Other assets	1,558	1,603
Total assets	<u>\$42,448</u>	<u>\$34,772</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Short-term borrowings	\$ 7,274	\$ 5,418
Other liabilities	1,737	1,279
Long-term debt	10,804	6,010
Indebtedness to subsidiaries	499	1,296
Stockholders' equity	<u>22,134</u>	<u>20,769</u>
Total liabilities and stockholders' equity	<u>\$42,448</u>	<u>\$34,772</u>

(1) The double leverage ratio, which represents the ratio of the Parent's total equity investment in subsidiaries to its total stockholders' equity, was 112% and 104% at December 31, 1999 and 1998, respectively.

CONDENSED STATEMENT OF CASH FLOWS

(in millions)	Year ended December 31,		
	1999	1998	1997
Cash flows from operating activities:			
Net income	\$ 3,747	\$1,950	\$2,499
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in undistributed income of subsidiaries	(1,914)	(476)	(894)
Depreciation and amortization	26	10	19
Securities available for sale gains	—	(3)	(6)
Release of preferred shares to ESOP	86	33	34
Other assets, net	114	(401)	(798)
Accrued expenses and other liabilities	536	618	304
Net cash provided by operating activities	<u>2,595</u>	<u>1,731</u>	<u>1,158</u>
Cash flows from investing activities:			
Securities available for sale:			
Proceeds from sales	348	185	164
Proceeds from prepayments and maturities	120	665	299
Purchases	(872)	(1,273)	(326)
Net advances to non-bank subsidiaries	724	(1,210)	(140)
Principal collected on notes/loans of subsidiaries	1,108	89	46
Capital notes and term loans made to subsidiaries	(505)	(1,158)	(113)
Net increase in investment in subsidiaries	<u>(1,003)</u>	<u>(295)</u>	<u>(384)</u>
Net cash used by investing activities	<u>(80)</u>	<u>(2,997)</u>	<u>(454)</u>
Cash flows from financing activities:			
Net increase in short-term borrowings and indebtedness to subsidiaries	1,059	2,773	1,709
Proceeds from issuance of long-term debt	6,574	500	403
Repayment of long-term debt	(1,780)	(295)	(981)
Proceeds from issuance of common stock	517	171	150
Repurchases of common stock	(2,122)	(742)	(483)
Net decrease in ESOP loans	2	9	1
Payment of cash dividends	<u>(1,328)</u>	<u>(1,017)</u>	<u>(968)</u>
Net cash provided (used) by financing activities	<u>2,922</u>	<u>1,399</u>	<u>(169)</u>
Net change in cash and cash equivalents	5,437	133	535
Cash and cash equivalents at beginning of year	683	550	15
Cash and cash equivalents at end of year	<u>\$ 6,120</u>	<u>\$ 683</u>	<u>\$ 550</u>

NOTE 20

WFC HOLDINGS CORPORATION

WFC Holdings is a wholly owned subsidiary of the Parent and is the sole stockholder of Wells Fargo Bank, N.A. The Parent guarantees the debt obligations of WFC Holdings. In view of this, the summarized assets, liabilities and results

of operations of WFC Holdings are presented below. Prior year amounts have been restated due to certain legal reorganizations within the Company.

SUMMARIZED CONSOLIDATED INCOME STATEMENT

(in millions)	Year ended December 31,		
	1999	1998	1997
Interest income	\$6,829	\$7,085	\$7,271
Interest expense	2,270	2,508	2,670
Provision for loan losses	655	728	624
Noninterest income	4,301	3,925	3,575
Noninterest expense	<u>6,239</u>	<u>5,923</u>	<u>5,346</u>
Income before income tax expense	1,966	1,851	2,206
Income tax expense	<u>889</u>	<u>892</u>	<u>1,017</u>
Net income	<u>\$1,077</u>	<u>\$ 959</u>	<u>\$1,189</u>

SUMMARIZED CONSOLIDATED BALANCE SHEET

(in millions)	December 31,	
	1999	1998
ASSETS		
Cash and due from banks	\$ 7,899	\$ 7,668
Securities available for sale	12,452	11,128
Mortgages held for sale	1,511	2,843
Loans, net	65,547	63,763
Mortgage servicing rights	4,492	3,222
Other assets	<u>20,381</u>	<u>23,003</u>
Total assets	<u>\$112,282</u>	<u>\$111,627</u>
LIABILITIES AND STOCKHOLDER'S EQUITY		
Short-term borrowings	\$ 4,306	\$ 5,219
Long-term debt	4,148	5,691
Other liabilities	88,729	85,522
Guaranteed preferred beneficial interest in Company's subordinated debentures	785	785
Stockholder's equity	<u>14,314</u>	<u>14,410</u>
Total liabilities and stockholder's equity	<u>\$112,282</u>	<u>\$111,627</u>

NOTE 21 LEGAL ACTIONS

In the normal course of business, the Company is at all times subject to numerous pending and threatened legal actions, some for which the relief or damages sought are substantial. After reviewing pending and threatened actions with counsel, management believes that the outcome of such actions will not have a material adverse effect on

stockholders' equity of the Company. The Company is not able to predict whether the outcome of such actions may or may not have a material adverse effect on results of operations in a particular future period as the timing and amount of any resolution of such actions and its relationship to the future results of operations are not known.

NOTE 22 RISK-BASED CAPITAL

The Company and each of the subsidiary banks are subject to various regulatory capital adequacy requirements administered by the FRB and the OCC, respectively. The Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA) required that the federal regulatory agencies adopt regulations defining five capital tiers for banks: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's financial statements.

Quantitative measures, established by the regulators to ensure capital adequacy, require that the Company and each of the subsidiary banks maintain minimum ratios (set forth in the table on the following page) of capital to risk-weighted assets. There are two categories of capital under the guidelines. Tier 1 capital includes common stockholders' equity, qualifying preferred stock and trust preferred securities, less goodwill and certain other deductions (including the unrealized net gains and losses, after applicable taxes, on securities available for sale carried at fair value). Tier 2 capital includes preferred stock not qualifying as Tier 1 capital, subordinated debt, the allowance for loan losses and net unrealized gains on marketable equity securities, subject to limitations by the guidelines. Tier 2 capital is limited to the amount of Tier 1 capital (i.e., at least half of the total capital must be in the form of Tier 1 capital).

Under the guidelines, capital is compared to the relative risk related to the balance sheet. To derive the risk included in the balance sheet, one of four risk weights (0%, 20%, 50% and 100%) is applied to the different balance sheet and off-balance sheet assets, primarily based on the relative credit risk of the counterparty. For example, claims guaranteed by the U.S. government or one of its agencies are risk-weighted at 0%. Off-balance sheet items, such as loan commitments and derivative financial instruments, are also applied a risk weight after calculating balance sheet equivalent amounts. One of four credit conversion factors (0%, 20%, 50% and 100%) is assigned to loan commitments based on the likelihood of the off-balance sheet item becoming an asset. For example, certain loan commitments are converted at 50% and then risk-weighted at 100%. Derivative financial instruments are converted to balance sheet equivalents based on notional values, replacement costs and remaining contractual terms. (See Notes 5 and 23 for further discussion of off-balance sheet items.) The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Management believes that, as of December 31, 1999, the Company and each of the significant subsidiary banks met all capital adequacy requirements to which they are subject.

Under the FDICIA prompt corrective action provisions applicable to banks, the most recent notification from the OCC categorized each of the significant subsidiary banks as well capitalized. To be categorized as well capitalized, the institution must maintain a total risk-based capital ratio as set

forth in the following table and not be subject to a capital directive order. There are no conditions or events since that notification that management believes have changed the risk-based capital category of any of the significant subsidiary banks.

(in billions)

	Actual		For capital		To be well	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 1999:						
Total capital (to risk-weighted assets)						
Wells Fargo & Company	\$17.6	10.50%	≥\$13.4	≥8.00%		
Norwest Bank Minnesota, N.A.	2.1	10.63	≥ 1.6	≥8.00	≥\$2.0	≥10.00%
Wells Fargo Bank, N.A.	9.3	11.24	≥ 6.6	≥8.00	≥ 8.2	≥10.00
Tier 1 capital (to risk-weighted assets)						
Wells Fargo & Company	\$13.5	8.07%	≥ \$ 6.7	≥4.00%		
Norwest Bank Minnesota, N.A.	1.9	9.61	≥ .8	≥4.00	≥\$1.2	≥ 6.00%
Wells Fargo Bank, N.A.	6.4	7.82	≥ 3.3	≥4.00	≥ 4.9	≥ 6.00
Tier 1 capital (to average assets)						
(Leverage ratio)						
Wells Fargo & Company	\$13.5	6.77%	≥ \$ 8.0	≥4.00% ⁽¹⁾		
Norwest Bank Minnesota, N.A.	1.9	5.64	≥ 1.4	≥4.00 ⁽¹⁾	≥\$1.7	≥ 5.00%
Wells Fargo Bank, N.A.	6.4	7.23	≥ 3.6	≥4.00 ⁽¹⁾	≥ 4.5	≥ 5.00

(1) The leverage ratio consists of Tier 1 capital divided by quarterly average total assets, excluding goodwill and certain other items. The minimum leverage ratio guideline is 3% for banking organizations that do not anticipate significant growth and that have well-diversified risk, excellent asset quality, high liquidity, good earnings, effective management and monitoring of market risk and, in general, are considered top-rated, strong banking organizations.

NOTE 23 DERIVATIVE FINANCIAL INSTRUMENTS

The Company enters into a variety of financial contracts, which include interest rate futures and forward contracts, interest rate floors and caps, options and interest rate swap agreements. The contract or notional amount of a derivative is used to determine, along with the other terms of the derivative, the amounts to be exchanged between the counterparties. Because the contract or notional amount does not represent amounts exchanged by the parties, it is not a measure of loss exposure related to the use of derivatives nor of exposure to liquidity risk. The Company is primarily an end-user of these instruments. The Company also offers such contracts to its customers but offsets such contracts by purchasing other financial contracts or uses the contracts for asset/liability management. To a lesser extent, the Company takes positions based on market expectations or to benefit from price differentials between financial instruments and markets.

The Company is exposed to credit risk in the event of nonperformance by counterparties to financial instruments. The Company controls the credit risk of its financial contracts except for contracts for which credit risk is *de minimus* through credit approvals, limits and monitoring procedures. Credit risk related to derivative financial instruments is considered and, if material, provided for separately from the allowance for loan losses. As the Company generally enters into transactions only with high quality counterparties, losses associated with counterparty nonperformance on derivative financial instruments have been immaterial. Further, the Company obtains collateral where appropriate and uses master netting arrangements in accordance with FASB Interpretation No. 39, *Offsetting of Amounts Related to Certain Contracts*, as amended by FASB Interpretation No. 41, *Offsetting of Amounts Related to Certain Repurchase and Reverse Repurchase Agreements*.

The following table summarizes the aggregate notional or contractual amounts, credit risk amount and estimated net fair value for the Company's derivative financial instruments at December 31, 1999 and 1998.

(in millions)	1999			December 31, 1998		
	Notional or contractual amount	Credit risk amount ⁽³⁾	Estimated net fair value	Notional or contractual amount	Credit risk amount ⁽³⁾	Estimated net fair value
ASSET/LIABILITY MANAGEMENT						
HEDGES						
Interest rate contracts:						
Swaps ⁽¹⁾	\$31,570	\$93	\$(243)	\$24,429	\$735	\$686
Futures	50,725	—	—	62,348	—	—
Floors and caps ⁽¹⁾	41,142	110	110	33,598	504	504
Options ⁽¹⁾⁽²⁾	11,940	22	43	25,822	112	101
Forwards ⁽¹⁾	22,528	108	43	41,283	11	(58)
Foreign exchange contracts:						
Forwards ⁽¹⁾	138	1	—	168	—	(1)
CUSTOMER ACCOMMODATIONS						
Interest rate contracts:						
Swaps ⁽¹⁾	21,702	158	(10)	7,795	81	10
Futures	22,839	—	—	8,440	—	—
Floors and caps purchased ⁽¹⁾	6,130	51	51	5,619	42	42
Floors and caps written	5,804	—	(53)	5,717	—	(42)
Options purchased ⁽¹⁾	741	30	30	—	—	—
Options written	1,101	—	(51)	—	—	—
Forwards ⁽¹⁾	164	6	1	850	24	4
Commodity contracts:						
Swaps ⁽¹⁾	116	10	—	78	4	—
Floors and caps purchased ⁽¹⁾	30	2	2	4	—	—
Floors and caps written	30	—	(2)	4	—	—
Foreign exchange contracts:						
Forwards ⁽¹⁾	4,234	62	28	3,524	37	2
Options purchased ⁽¹⁾	41	—	—	44	2	2
Options written	42	—	(1)	43	—	(2)

(1) The Company anticipates performance by substantially all of the counterparties for these contracts or the underlying financial instruments.

(2) At December 31, 1999, a majority of the purchased option contracts were options on futures contracts, which are exchange traded for which the exchange assumes counterparty risk.

(3) Credit risk amounts reflect the replacement cost for those contracts in a gain position in the event of nonperformance by counterparties.

Interest rate futures and forward contracts are contracts in which the buyer agrees to purchase and the seller agrees to make delivery of a specific financial instrument at a predetermined price or yield. These contracts may be settled either in cash or by delivery of the underlying financial instrument. Futures contracts are standardized and are traded on exchanges. Gains and losses on futures contracts are settled daily with the exchange based on a notional principal value. The exchange assumes the risk that a counterparty will not pay and generally requires margin payments to minimize such risk. Market risks arise from movements in interest rates and security values. The Company uses 90- to 120-day futures contracts on Eurodollar deposits and U.S. Treasury notes to shorten the interest rate maturity of deposits (\$5 billion at December 31, 1999) and to reduce the price risk of interest-sensitive assets (\$46 billion at December 31, 1999), primarily mortgage servicing rights. Initial margin requirements on futures contracts are provided by investment securities pledged as collateral.

Interest rate floors and caps are interest rate protection instruments that involve the payment from the seller to the buyer of an interest differential. This differential represents the difference between a short-term rate (e.g., three-month LIBOR) and an agreed-upon rate (the strike rate) applied to a notional principal amount. By purchasing a floor, the Company will be paid the differential by a counterparty, should the current short-term rate fall below the strike level of the agreement. The Company generally receives cash quarterly on purchased floors (when the current interest rate falls below the strike rate) and purchased caps (when the current interest rate exceeds the strike rate). The primary risk associated with purchased floors and caps is the ability of the counterparties to meet the terms of the contract. Of the total purchased floors and caps for asset/liability management of \$41 billion at December 31, 1999, the Company had \$9 billion of floors to protect variable-rate loans from a drop in interest rates. The Company also had purchased floors of \$13 billion at December 31, 1999 to hedge mortgage servicing rights. Cash flows from the floors offset lost future servicing revenue caused by increased levels of loan prepayments associated with lower interest rates. The remaining purchased floors and caps of \$19 billion at December 31, 1999 were used to hedge interest rate risk of various other specific assets and liabilities.

Interest rate swap contracts are entered into primarily as an asset/liability management strategy to reduce interest rate risk. Interest rate swap contracts are exchanges of interest payments, such as fixed-rate payments for floating-rate payments, based on a notional principal amount. Payments related to the Company's swap contracts are made either monthly, quarterly or semi-annually by one of the parties depending on the specific terms of the related contract. The primary risk associated with all swaps is the exposure to movements in interest rates and the ability of the counterparties to meet the terms of the contract. At December 31, 1999, the Company had \$32 billion of interest rate swaps outstanding for interest rate risk management purposes on which the Company receives payments based on fixed interest rates and makes payments based on variable rates (e.g., three-month LIBOR). Included in this amount, \$18 billion was used to convert floating-rate loans into fixed-rate assets. The remaining swap contracts used for interest rate risk management of \$14 billion at December 31, 1999 were used to hedge interest rate risk of various other specific assets and liabilities.

Options are contracts that grant the purchaser, for a premium payment, the right, but not the obligation, to either purchase or sell the underlying financial instrument at a set price during a period or at a specified date in the future. The writer of the option is obligated to purchase or sell the underlying financial instrument, if the purchaser chooses to exercise the option. The writer of the option receives a premium when the option is entered into and bears the risk of an unfavorable change in the price of the underlying financial instrument. Of the total options for asset/liability management of \$12 billion at December 31, 1999, the Company had \$6 billion of options on futures contracts hedging mortgage servicing rights. The futures exchange assumes the risk that a counterparty will not pay. Market risks arise from movements in interest rates and/or security values. The remaining options used for interest rate risk management of \$6 billion at December 31, 1999 were used to hedge interest rate risk of various other specific assets.

The Company has entered into futures contracts and mandatory and standby forward contracts, including options on futures and forward contracts, to reduce interest rate risk on certain mortgage loans held for sale and other commitments. For forward contracts, the primary risk is the exposure to movements in interest rates and the ability of the counterparties to meet the terms of the contracts. The net unrealized loss on these futures and forward contracts at December 31, 1999 and 1998 was \$109 million and \$12 million, respectively. These contracts mature within 180 days.

NOTE 24

FAIR VALUE OF FINANCIAL INSTRUMENTS

FAS 107, *Disclosures about Fair Value of Financial Instruments*, requires that the Company disclose estimated fair values for its financial instruments. Fair value estimates, methods and assumptions set forth below for the Company's financial instruments are made solely to comply with the requirements of this Statement and should be read in conjunction with the financial statements and notes in this Annual Report. The carrying amounts in the table are recorded in the Consolidated Balance Sheet under the indicated captions, except for the derivative financial instruments, which are recorded in the specific asset or liability balance being hedged or in other assets if the derivative financial instrument is a customer accommodation.

Fair values are based on estimates or calculations using present value techniques in instances where quoted market prices are not available. Because broadly traded markets do not exist for most of the Company's financial instruments, the fair value calculations attempt to incorporate the effect of current market conditions at a specific time. Fair valuations are management's estimates of the values, and they are often calculated based on current pricing policy, the economic and competitive

environment, the characteristics of the financial instruments and other such factors. These calculations are subjective in nature, involve uncertainties and matters of significant judgment and do not include tax ramifications; therefore, the results cannot be determined with precision, substantiated by comparison to independent markets and may not be realized in an actual sale or immediate settlement of the instruments. There may be inherent weaknesses in any calculation technique, and changes in the underlying assumptions used, including discount rates and estimates of future cash flows, could significantly affect the results. The Company has not included certain material items in its disclosure, such as the value of the long-term relationships with the Company's deposit, credit card and trust customers, since these intangibles are not financial instruments. For all of these reasons, the aggregation of the fair value calculations presented herein do not represent, and should not be construed to represent, the underlying value of the Company.

The following table presents a summary of the Company's financial instruments, as defined by FAS 107:

(in millions)	1999		December 31, 1998	
	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
FINANCIAL ASSETS				
Mortgages held for sale	\$ 11,707	\$ 11,855	\$ 19,770	\$ 20,015
Loans, net ⁽¹⁾	116,147	113,695	104,714	105,253
Nonmarketable equity investments	3,347	3,676	2,392	2,719
FINANCIAL LIABILITIES				
Deposits	\$132,708	\$132,461	\$136,788	\$136,719
Long-term debt ⁽²⁾	23,345	23,076	19,673	19,948
Guaranteed preferred beneficial interests in Company's subordinated debentures	785	730	785	874
DERIVATIVE FINANCIAL INSTRUMENTS ⁽³⁾				
Interest rate contracts:				
Floors and caps purchased	\$ 273	\$ 161	\$ 189	\$ 546
Floors and caps written	(64)	(53)	(42)	(42)
Options purchased	83	76	154	161
Options written	(55)	(55)	(62)	(60)
Swaps	(50)	(253)	(24)	696
Forwards	44	44	(54)	(54)
Foreign exchange contracts	27	27	1	1

(1) Loans are net of deferred fees on loan commitments and standby letters of credit of \$147 million and \$146 million at December 31, 1999 and 1998, respectively.

(2) The carrying amount and fair value exclude obligations under capital leases of \$30 million and \$36 million at December 31, 1999 and 1998, respectively.

(3) The carrying amounts include unamortized fees paid or received and gains or losses on derivative financial instruments receiving mark-to-market treatment.

FINANCIAL ASSETS

SHORT-TERM FINANCIAL ASSETS

Short-term financial assets include cash and due from banks, federal funds sold and securities purchased under resale agreements and due from customers on acceptances. The carrying amount is a reasonable estimate of fair value because of the relatively short period of time between the origination of the instrument and its expected realization.

SECURITIES AVAILABLE FOR SALE

Securities available for sale at December 31, 1999 and 1998 are set forth in Note 4.

LOANS

The fair valuation calculation process differentiates loans based on their financial characteristics, such as product classification, loan category, pricing features and remaining maturity. Prepayment estimates are evaluated by product and loan rate.

The fair value of commercial loans, other real estate mortgage loans and real estate construction loans is calculated by discounting contractual cash flows using discount rates that reflect the Company's current pricing for loans with similar characteristics and remaining maturity.

For real estate 1-4 family first and junior lien mortgages, fair value is calculated by discounting contractual cash flows, adjusted for prepayment estimates, using discount rates based on current industry pricing for loans of similar size, type, remaining maturity and repricing characteristics.

For credit card loans, the portfolio's yield is equal to the Company's current pricing and, therefore, the fair value is equal to book value.

For other consumer loans, the fair value is calculated by discounting the contractual cash flows, adjusted for prepayment estimates, based on the current rates offered by the Company for loans with similar characteristics.

For auto lease financing, the fair value is calculated by discounting the contractual cash flows at the Company's current pricing for items with similar remaining terms, not including tax benefits.

Commitments, standby letters of credit and commercial and similar letters of credit not included in the previous table have contractual values of \$74,582 million, \$4,355 million and \$745 million, respectively, at December 31, 1999, and \$71,467 million, \$3,332 million and \$691 million, respectively, at December 31, 1998. These instruments generate ongoing fees at the Company's current pricing levels. Of the commitments at December 31, 1999, 60% mature within one year.

NONMARKETABLE EQUITY INVESTMENTS

There are restrictions on the sale and/or liquidation of the Company's nonmarketable equity investments, which are generally in the form of limited partnerships; and the Company has no direct control over the investment decisions of the limited partnerships. To estimate fair value, a significant portion of the underlying limited partnerships' investments are valued based on market quotes.

FINANCIAL LIABILITIES

DEPOSIT LIABILITIES

FAS 107 states that the fair value of deposits with no stated maturity, such as noninterest-bearing demand deposits, interest-bearing checking and market rate and other savings, is equal to the amount payable on demand at the measurement date. Although the FASB's requirement for these categories is not consistent with the market practice of using prevailing interest rates to value these amounts, the amount included for these deposits in the previous table is their carrying value at December 31, 1999 and 1998. The fair value of other time deposits is calculated based on the discounted value of contractual cash flows. The discount rate is estimated using the rates currently offered for like deposits with similar remaining maturities.

SHORT-TERM FINANCIAL LIABILITIES

Short-term financial liabilities include federal funds purchased and securities sold under repurchase agreements, commercial paper and other short-term borrowings. The carrying amount is a reasonable estimate of fair value because of the relatively short period of time between the origination of the instrument and its expected realization.

LONG-TERM DEBT

The fair value of the Company's underwritten long-term debt is estimated based on the quoted market prices of the instruments. The fair value of the medium-term note programs, which are part of long-term debt, is calculated based on the discounted value of contractual cash flows. The discount rate is estimated using the rates currently offered for new notes with similar remaining maturities.

GUARANTEED PREFERRED BENEFICIAL INTERESTS IN COMPANY'S SUBORDINATED DEBENTURES

The fair value of the Company's trust preferred securities is estimated based on the quoted market prices of the instruments.

DERIVATIVE FINANCIAL INSTRUMENTS

The fair value of derivative financial instruments is based on the estimated amounts that the Company would receive or pay to terminate the contracts at the reporting date (i.e., mark-to-market value). Dealer quotes are available for substantially all of the Company's derivative financial instruments.

LIMITATIONS

These fair value disclosures are made solely to comply with the requirements of FAS 107. The calculations represent management's best estimates; however, due to the lack of broad markets and the significant items excluded from this disclosure, the calculations do not represent the underlying value of the Company. The information presented is based on fair value calculations and market quotes as of December 31, 1999 and 1998. These amounts have not been updated since year end; therefore, the valuations may have changed significantly since that point in time.

As discussed above, certain of the Company's asset and liability financial instruments are short-term, and therefore, the carrying amounts in the Consolidated Balance Sheet approximate fair value. Other significant assets and liabilities, which are not considered financial assets or liabilities and for which fair values have not been estimated, include premises and equipment, goodwill and other intangibles, deferred taxes and other liabilities.

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders of Wells Fargo & Company:

We have audited the accompanying consolidated balance sheet of Wells Fargo & Company and Subsidiaries as of December 31, 1999 and 1998, and the related consolidated statements of income, changes in stockholders' equity and comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 1999. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Wells Fargo & Company and Subsidiaries as of December 31, 1999 and 1998, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1999, in conformity with generally accepted accounting principles.

KPMG LLP

San Francisco, California
January 18, 2000

QUARTERLY FINANCIAL DATA
CONDENSED CONSOLIDATED STATEMENT OF INCOME — QUARTERLY

(in millions, except per share amounts)

	1999				1998			
	Quarter ended				Quarter ended			
	Dec. 31	Sept. 30	June 30	Mar. 31	Dec. 31	Sept. 30 ⁽¹⁾	June 30 ⁽¹⁾	Mar. 31 ⁽¹⁾
INTEREST INCOME	\$ 3,749	\$ 3,641	\$ 3,496	\$ 3,488	\$ 3,598	\$ 3,528	\$ 3,490	\$ 3,439
INTEREST EXPENSE	<u>1,354</u>	<u>1,259</u>	<u>1,185</u>	<u>1,222</u>	<u>1,297</u>	<u>1,265</u>	<u>1,258</u>	<u>1,245</u>
NET INTEREST INCOME	2,395	2,382	2,311	2,266	2,301	2,263	2,232	2,194
Provision for loan losses	<u>275</u>	<u>240</u>	<u>260</u>	<u>270</u>	<u>624</u>	<u>307</u>	<u>309</u>	<u>305</u>
Net interest income after provision for loan losses	<u>2,120</u>	<u>2,142</u>	<u>2,051</u>	<u>1,996</u>	<u>1,677</u>	<u>1,956</u>	<u>1,923</u>	<u>1,889</u>
NONINTEREST INCOME								
Service charges on deposit accounts	396	385	367	344	364	356	332	305
Trust and investment fees	324	317	315	300	274	267	269	259
Credit card fees	142	138	126	132	136	136	128	121
Other fees	268	258	267	238	252	241	232	221
Mortgage banking	270	318	324	327	252	275	303	276
Insurance	84	95	119	85	70	73	111	95
Net venture capital gains (losses)	721	162	13	112	(4)	4	53	59
Net (losses) gains on securities available for sale	(260)	(2)	23	(2)	8	76	66	19
Other	<u>126</u>	<u>138</u>	<u>260</u>	<u>191</u>	<u>205</u>	<u>193</u>	<u>221</u>	<u>178</u>
Total noninterest income	<u>2,071</u>	<u>1,809</u>	<u>1,814</u>	<u>1,727</u>	<u>1,557</u>	<u>1,621</u>	<u>1,715</u>	<u>1,533</u>
NONINTEREST EXPENSE								
Salaries	802	776	750	725	971	730	717	684
Incentive compensation	129	124	135	134	123	164	150	135
Employee benefits	197	208	217	199	198	167	187	188
Equipment	274	193	182	191	328	192	196	184
Net occupancy	188	205	185	186	200	188	187	189
Goodwill	132	106	104	104	104	108	104	104
Core deposit intangible	48	49	50	52	60	58	61	63
Net (gains) losses on dispositions of premises and equipment	(10)	6	(13)	2	270	7	41	7
Other	<u>897</u>	<u>751</u>	<u>754</u>	<u>749</u>	<u>1,228</u>	<u>733</u>	<u>809</u>	<u>742</u>
Total noninterest expense	<u>2,657</u>	<u>2,418</u>	<u>2,364</u>	<u>2,342</u>	<u>3,482</u>	<u>2,347</u>	<u>2,452</u>	<u>2,296</u>
INCOME (LOSS) BEFORE INCOME TAX EXPENSE (BENEFIT)	1,534	1,533	1,501	1,381	(248)	1,230	1,186	1,126
Income tax expense (benefit)	<u>564</u>	<u>571</u>	<u>570</u>	<u>497</u>	<u>(54)</u>	<u>488</u>	<u>467</u>	<u>442</u>
NET INCOME (LOSS)	<u>\$ 970</u>	<u>\$ 962</u>	<u>\$ 931</u>	<u>\$ 884</u>	<u>\$ (194)</u>	<u>\$ 742</u>	<u>\$ 719</u>	<u>\$ 684</u>
NET INCOME (LOSS) APPLICABLE TO COMMON STOCK	<u>\$ 961</u>	<u>\$ 953</u>	<u>\$ 922</u>	<u>\$ 875</u>	<u>\$ (203)</u>	<u>\$ 733</u>	<u>\$ 710</u>	<u>\$ 675</u>
EARNINGS (LOSS) PER COMMON SHARE	<u>\$.59</u>	<u>\$.58</u>	<u>\$.56</u>	<u>\$.53</u>	<u>\$ (.12)</u>	<u>\$.45</u>	<u>\$.44</u>	<u>\$.42</u>
DILUTED EARNINGS (LOSS) PER COMMON SHARE	<u>\$.58</u>	<u>\$.57</u>	<u>\$.55</u>	<u>\$.53</u>	<u>\$ (.12)</u>	<u>\$.45</u>	<u>\$.43</u>	<u>\$.41</u>
DIVIDENDS DECLARED PER COMMON SHARE	<u>\$.20</u>	<u>\$.20</u>	<u>\$.20</u>	<u>\$.185</u>	<u>\$.185</u>	<u>\$.185</u>	<u>\$.165</u>	<u>\$.165</u>
Average common shares outstanding	<u>1,635.6</u>	<u>1,648.6</u>	<u>1,651.4</u>	<u>1,647.1</u>	<u>1,642.4</u>	<u>1,617.3</u>	<u>1,610.3</u>	<u>1,615.7</u>
Diluted average common shares outstanding	<u>1,656.0</u>	<u>1,667.1</u>	<u>1,672.3</u>	<u>1,664.2</u>	<u>1,642.4</u>	<u>1,640.7</u>	<u>1,632.2</u>	<u>1,639.1</u>

(1) Amounts have been restated to reflect the pooling-of-interests accounting treatment of the Merger. The restated amounts include adjustments to conform the accounting policies of the former Norwest and the former Wells Fargo. In noninterest expense, employee benefits decreased by \$2 million in each of the quarters that preceded the fourth quarter of 1998 to conform the accounting treatment for the postretirement transition obligation identified with the implementation of FAS 106, *Employers' Accounting for Postretirement Benefits Other than Pensions*. Additionally, equipment expense increased \$2 million for the quarter ended June 30, 1998.

AVERAGE BALANCES, YIELDS AND RATES PAID (TAXABLE-EQUIVALENT BASIS) — QUARTERLY (1)(2)

(in millions)

	1999			Quarter ended December 31, 1998		
	Average balance	Yields/rates	Interest income/expense	Average balance	Yields/rates	Interest income/expense
EARNING ASSETS						
Federal funds sold and securities purchased under resale agreements	\$ 1,621	5.16%	\$ 21	\$ 2,011	5.25%	\$ 27
Securities available for sale ⁽³⁾ :						
Securities of U.S. Treasury and federal agencies	5,619	5.52	83	3,722	5.82	54
Securities of U.S. states and political subdivisions	1,792	8.24	37	1,539	8.41	31
Mortgage-backed securities:						
Federal agencies	20,071	6.90	352	20,283	6.85	341
Private collateralized mortgage obligations	2,729	6.97	49	3,433	6.66	57
Total mortgage-backed securities	22,800	6.90	401	23,716	6.82	398
Other securities	4,995	6.13	56	2,738	5.86	43
Total securities available for sale	35,206	6.65	577	31,715	6.71	526
Loans held for sale ⁽³⁾	4,776	7.65	92	5,099	7.63	97
Mortgages held for sale ⁽³⁾	10,057	7.10	182	16,995	6.82	290
Loans:						
Commercial	37,541	8.98	850	34,631	8.62	751
Real estate 1-4 family first mortgage	12,408	7.64	237	12,059	7.79	235
Other real estate mortgage	18,223	8.59	394	16,305	8.89	365
Real estate construction	4,619	9.17	107	3,779	9.12	87
Consumer:						
Real estate 1-4 family junior lien mortgage	12,567	10.11	319	11,007	10.06	278
Credit card	5,285	13.58	179	5,644	14.67	207
Other revolving credit and monthly payment	16,571	12.91	536	16,284	12.69	518
Total consumer	34,423	11.99	1,034	32,935	12.15	1,003
Lease financing	7,542	7.78	147	6,177	8.02	124
Foreign	1,545	21.11	82	1,438	21.18	76
Total loans ⁽⁴⁾	116,301	9.76	2,851	107,324	9.80	2,641
Other	3,913	4.36	43	2,353	5.27	31
Total earning assets	\$171,874	8.75	3,766	\$165,497	8.72	3,612
FUNDING SOURCES						
Deposits:						
Interest-bearing checking	\$ 2,725	1.11	8	\$ 2,656	1.05	7
Market rate and other savings	56,500	2.23	318	54,178	2.50	341
Savings certificates	24,556	4.74	293	27,673	5.11	357
Other time deposits	3,307	5.00	42	3,911	5.39	53
Deposits in foreign offices	1,664	5.05	21	1,130	4.69	13
Total interest-bearing deposits	88,752	3.05	682	89,548	3.42	771
Short-term borrowings	20,696	5.54	289	17,075	5.09	219
Long-term debt	24,139	6.10	368	19,143	6.09	292
Guaranteed preferred beneficial interests in Company's subordinated debentures	785	7.70	15	774	7.65	15
Total interest-bearing liabilities	134,372	4.01	1,354	126,540	4.07	1,297
Portion of noninterest-bearing funding sources	37,502	—	—	38,957	—	—
Total funding sources	\$171,874	3.14	1,354	\$165,497	3.12	1,297
Net interest margin and net interest income on a taxable-equivalent basis ⁽⁵⁾		5.61%	\$2,412		5.60%	\$2,315
NONINTEREST-EARNING ASSETS						
Cash and due from banks	\$ 12,182			\$ 11,086		
Goodwill	7,600			7,709		
Other	16,691			13,480		
Total noninterest-earning assets	\$ 36,473			\$ 32,275		
NONINTEREST-BEARING FUNDING SOURCES						
Deposits	\$ 42,712			\$ 43,303		
Other liabilities	9,430			7,197		
Preferred stockholders' equity	461			463		
Common stockholders' equity	21,372			20,269		
Noninterest-bearing funding sources used to fund earning assets	(37,502)			(38,957)		
Net noninterest-bearing funding sources	\$ 36,473			\$ 32,275		
TOTAL ASSETS	\$208,347			\$197,772		

(1) The average prime rate of the Company was 8.37% and 7.92% for the quarters ended December 31, 1999 and 1998, respectively. The average three-month London Interbank Offered Rate (LIBOR) was 6.14% and 5.28% for the same quarters, respectively.

(2) Interest rates and amounts include the effects of hedge and risk management activities associated with the respective asset and liability categories.

(3) Yields are based on amortized cost balances.

(4) Nonaccrual loans and related income are included in their respective loan categories.

(5) Includes taxable-equivalent adjustments that primarily relate to income on certain loans and securities that is exempt from federal and applicable state income taxes. The federal statutory tax rate was 35% for both quarters presented.

INDEX

40, 99	Average balances, yields and rates—annual and quarterly	68	Short-term borrowings
53	Balance sheet	69	Long-term debt
66	Charge-offs	70	Guaranteed preferred beneficial interests in Company's subordinated debentures
35, 51	Common stock book value and market price	72	Preferred stock
49, 91	Derivative financial instruments	74	Common stock and stock plans
34, 82	Earnings per share	79	Employee benefits and other expenses
35, 43	Earnings/ratios excluding goodwill and nonqualifying CDI	81	Income taxes
	Financial Accounting Standards Board statement:	82	Earnings per common share
34	FAS 133 — Accounting for Derivative Instruments and Hedging Activities	83	Comprehensive income
36	Five-year compound growth rate	84	Operating segments
52, 98	Income statement—annual and quarterly	86	Mortgage banking activities
	Loans:	87	Parent company
40, 99	Average balances—annual and quarterly	89	WFC Holdings Corporation
45, 64	Commitments	90	Legal actions
64	Portfolio	90	Risk-based capital
48	Market risk	91	Derivative financial instruments
61	Merger involving Norwest and Wells Fargo	94	Fair value of financial instruments
39, 40, 99	Net interest margin—annual and quarterly	38, 84	Operating Segments
56	Notes to financial statements:		Ratios:
56	Summary of significant accounting policies	35	Profitability (ROA and ROE)
60	Business combinations	35	Efficiency
62	Cash, loan and dividend restrictions	35	Common stockholders' equity to assets
63	Securities available for sale	35, 91	Risk-based capital and leverage
64	Loans and allowance for loan losses	36	Six-year summary of selected financial data
67	Premises, equipment, lease commitments and other assets	43	Year 2000 (Y2K)
68	Deposits		

WELLS FARGO & COMPANY

Assets	\$218 billion
Stores	5,310
Customers	17 million
Common Shares Outstanding	1,626,849,541
Return on Common Equity	17.66%
Market Capitalization	\$65.7 billion
Price/Earnings Ratio	18.1x
Symbol	WFC
Listings	New York Stock Exchange Chicago Stock Exchange
Shareowner Services	Norwest Bank Minnesota, N.A. 1-800-468-9716

Corporate Communications Larry Haeg, EVP (415) 396-3070

Corporate Secretary Laurel Holschuh, SVP (612) 667-8655

Investor Relations Robert S. Strickland, SVP (415) 396-0523

WELLS FARGO DIRECT PURCHASE PLAN You may buy Wells Fargo stock directly from Wells Fargo, even if you're not now a Wells Fargo stockholder, through optional cash payments or automatic monthly deductions from a bank account. You may also have your dividends reinvested automatically. It's a convenient and economical way to increase your Wells Fargo investment. Call 1-800-813-3324 for an enrollment kit including a plan prospectus.

INVESTOR INFORMATION For more copies of this report, other Wells Fargo investor materials or the latest Wells Fargo stock price, call 1-888-662-7865.

ANNUAL STOCKHOLDERS' MEETING 9:30 a.m. Tuesday, April 25, 2000, 420 Montgomery St., San Francisco, Calif. Proxy statement and form of proxy will be mailed to stockholders beginning on or about March 21, 2000.

COPIES OF FORM 10-K The Company will send the Wells Fargo Annual Report on Form 10-K for 1999 (including the financial statements filed with the Securities and Exchange Commission) without charge to any stockholder who asks for a copy in writing. Stockholders also can ask for copies of any exhibit to the Form 10-K. The Company will charge a fee to cover expenses to prepare and send any exhibits. Please send requests to: Corporate Secretary, Wells Fargo & Company, Norwest Center, MAC N9305-173, Sixth and Marquette, Minneapolis, Minnesota 55479.



Feb. 2000 *Fortune* magazine (survey of 10,000 executives, directors, securities analysts) ranks Wells Fargo nation's "most admired" super-regional bank.
Sept. 1999 *Fortune* magazine ranks Wells Fargo world's second most-admired commercial bank.



CONNECTED.

THEY CONNECTED! It was a busy Saturday morning at the Wells Fargo in-store bank in the “Food for Less” supermarket in La Puente, California’s San Gabriel Valley. At the service counter, two customers, a husband and wife, told Assistant Manager **Lauro Baca** (above, left) their story. They had tried to deposit a check from their attorney—the first payment (\$47,000) of an insurance claim settlement—in their account at another bank nearby. They needed \$3,000 from the check immediately to help pay for their grandson’s wedding. The bank refused, saying it needed to take the required 11 days to ensure the check was valid. Could Wells Fargo help? “Let’s give it a try,” said Baca. He verified the check, helped the couple deposit it and withdraw the funds they needed, then asked if he could help further. Perhaps, said the couple, we’ll give you a call.

Three weeks later they arrived at Baca’s banking store and asked him if he could help them invest the balance of the insurance settlement proceeds

for them: \$2 million. Baca alerted Wells Fargo Financial Consultant/VP **Bob Iglehart** (above, right), who in turn involved Trust Officer **Bob Faust**. A few days later, on his day off, Baca put on his suit and tie and volunteered to drive the couple to their meeting with Iglehart at his office in nearby Covina. Iglehart visited at length with the couple to understand their needs. He proposed choices that helped them invest through Wells Fargo in mutual funds, bonds and annuities. He now meets with them once every three months, sometimes driving an hour and a half to visit with them at their home.

“We earned their business for one reason,” said **Les Biller**, Wells Fargo’s chief operating officer, “Lauro Baca and Bob Iglehart showed them they cared. They listened and responded and went out of their way to help. They made a personal connection with them. The result is these customers paid us the greatest honor any customer can pay us: a repeat purchase. In this case—a \$2 million one.”

OUR VISION

We want to satisfy all the financial needs of our customers, help them succeed financially, be recognized as the premier financial services company in our markets and be one of America's great companies.

NUESTRA VISION

Deseamos satisfacer todas las necesidades financieras de nuestros clientes, ayudarlos a tener éxito en el área financiera, ser reconocidos como la compañía de servicios financieros más importante de nuestros mercados y ser reconocidos como una de las grandes compañías de norteamérica.

我們的目標

我們希望能滿足客戶在所有財務方面的需求，幫助他們在財務上發展成功，在我們的市場中被公認為首選的金融財務公司，同時成為美國最佳公司之一。

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